2010

ALARIS ROYALTY CORP.

Annual Report

ALARIS ROYALTY CORP.

Special Note Regarding Forward-Looking Statements and Non-GAAP Measures

Alaris' public communications often include written or oral statements which contain forward-looking information. Statements of this type are included in this annual report and may be included in our other filings with Canadian securities regulators, or in our other communications. Many of these statements can be identified by looking for words such as "believe", "expects", "will", "intends", "projects", "anticipates", "estimates", "continues", or similar words, or the negative of such words. All such statements are made pursuant to the applicable provisions of, and are intended to be forward-looking statements under applicable Canadian securities legislation. Statements containing forward-looking information include, but are not limited to, comments with respect to our objectives and priorities for 2010 and beyond, our growth strategies or future actions, and the results of or outlook for our operations and those of our Private Company Partners (as defined herein), or for the Canadian and U.S. economies.

By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. Assumptions about the performance of the Canadian and U.S. economies in 2010 and how that will affect our business and our ability to identify and close new opportunities with new Private Company Partners are material factors we considered when setting our strategic priorities and objectives, and our outlook for our business. Key assumptions include, but are not limited to, assumptions that the Canadian and U.S. economies will grow moderately in 2010, that interest rates will remain low, and that we will have the ability to raise required equity and/or debt financing on acceptable terms. We have also assumed that capital markets will improve somewhat and that the Canadian dollar will strengthen modestly relative to the U.S. dollar. In determining our expectations for economic growth, we primarily consider historical economic data provided by the Canadian and U.S. governments and their agencies.

There is a significant risk that our predictions, forecasts, conclusions or projections will not prove to be accurate, that our assumptions may not be correct and that actual results may differ materially from such predictions, forecasts, conclusions or projections. Although we believe that the expectations and assumptions reflected in our forward-looking statements are reasonable, we caution readers of this annual report not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements.

The future outcomes that relate to forward-looking statements may be influenced by many factors, including but not limited to those factors listed under the heading "*Risks & Uncertainty*" in our Management Discussion and Analysis herein. We caution that this list of risk factors is not exhaustive. Other factors could adversely affect our results. When relying on forward-looking statements to make decisions with respect to Alaris, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Alaris does not undertake to update any forward-looking statements, whether written or oral, that may be made, from time to time, by the organization or on its behalf, except as required by law. The forward-looking statements contained in this document are presented for the purpose of assisting our investors in understanding our operations, prospects, risks and other external factors that impact us specifically as at and for the periods ended on the dates presented, and may not be appropriate for other purposes.

Non-GAAP Measures

The terms EBITDA, Normalized EBITDA and Available Working Capital (the "**Non-GAAP Measures**") are financial measures used in this annual report that are not standard measures under Canadian GAAP (as defined herein). Alaris' method of calculating the Non-GAAP Measures may differ from the methods used by other issuers. Therefore, the Alaris Non-GAAP Measure may not be comparable to similar measures presented by other issuers. For definitions of the Non-GAAP Measures, please refer to our Management Discussion and Analysis, herein.

These Non-GAAP Measures should only be used in conjunction with our annual audited and quarterly reviewed financial statements and Management Discussion and Analysis, complete versions of which are available on SEDAR at www.sedar.com

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PRESIDENTS MESSAGE

Looking back on 2009 and what our expectations for the year were when we went into it, it is fair to say that the year went generally as we had hoped. We expected gradual and prudent growth from further financings, continued strong performance from LifeMark Health Limited Partnership ("**LifeMark**"), MEDIchair Ltd. **"MEDIchair"** and End of the Roll Carpet & Vinyl ("**End of the Roll**") and the start of a recovery from LMS Reinforcing Steel Group ("**LMS**") towards the end of the year. I am pleased to report that all of those expectations came to fruition in 2009.

LifeMark continues to be the model of consistency. Canada's leader in physiotherapy and rehabilitation clinics, LifeMark ended 2009 operating with 105 clinics across Canada compared to 35 clinics when we first partnered with this company 5 years ago. Our distributions from LifeMark were once again adjusted upwards based on the company's growth in same store sales in 2009. Alaris' unique structure of having our monthly distributions reset each year, just based on same store sales growth, has benefitted the management of LifeMark tremendously. While traditional private equity would participate in all forms of growth, the Alaris model leaves growth from acquired and newly-built locations to the company's common equity holders. As a result, Alaris now represents approximately 50% of LifeMark's economics compared to approximately 95% when we first helped LifeMark management acquire this organization. This has not been a win/lose scenario though. While LifeMark management has benefited greatly, Alaris has received a steady stream of cash flow that has continued to grow even through the global recession. LifeMark has also been a growth engine for deploying additional capital at rates of return that are accretive for our shareholders. A true win/win.

Our two smaller franchise-system partners, MEDIchair and End of the Roll both performed admirably in an incredibly difficult environment for retailers. Thankfully, both companies are well positioned to withstand a difficult economy because of their product offerings. Home medical equipment is a requirement for many disabled or elderly people with demographics dictating a steady growth of that market. End of the Roll is focused on the budget-minded renovation market that tends to do well when new home starts are down and more expensive renovations are put on hold.

As our shareholders know, the largest swing factor in our revenue is from LMS, our reinforcing steel partner based in Vancouver. As expected, LMS has seen strong improvements in its margins as the one-time impact of the Lehman Brothers' bankruptcy and the extreme economic circumstances of late 2008 and early 2009 has now come and gone. While volumes are slow to come back to historical levels, increased bidding activity and other signs are pointing to an improved second half of 2010 and into 2011. Western Canadian infrastructure activity, multi-family residential activity and commercial activity are all showing improved levels for the rest of this year.

As promised, Alaris was very cautious in our growth activity in 2009. Many of the companies that came to us looking for a capital partner had undergone dramatic declines in their business and in the long term, could not sustain our structure of stable cash distributions. Many other quality companies chose not to pursue new equity until they could see what direction the economy was going to take. So, despite reviewing more than 100 opportunities, Alaris management and our board of directors took a very conservative but warranted approach. In October, we were fortunate to have received a bought deal financing that was extremely well received by current and new shareholders alike. In total, $13.8 million was raised with the majority of the proceeds going into LifeMark's ongoing acquisition strategy. Given LifeMark's incredible performance as well as our knowledge and trust of their business and management, this was a profitable but low risk growth strategy.

2010 OUTLOOK

All of the events in 2009 have positioned Alaris for success in 2010. Already, we have increased our dividends by 14.3% to an annualized rate of $0.96 per share. The dividend increase represented our first dividend increase as a public company and also the tremendous confidence that our management team and directors have in the state of our business. Given that all four of our private company partners **("Partners" or "Private Company Partners")** are currently experiencing gains in their operations and given our unique visibility in our revenue streams, we felt that it was an appropriate time to increase our monthly dividend amount.

The addition of new partners is just as important as the success of our current partners and we are confident in our ability to grow Alaris by attracting these Partners. Our pipeline of potential transactions is deeper than it ever has been and the quality of the opportunities is better than we've seen in some time. While we will continue to be very cautious in partnering with new companies, we feel that the economic and investment climate is ideal for advancing our growth strategy.

We will continue to cling to our criteria of partnering with companies that have stable, steady cash flow streams, proven track records, moderate to low debt levels, low capital expenditure requirements, extremely strong management teams and businesses that our shareholders can expect to be strong for many decades to come.

After coming through one of the worst economic and financial crisis of all time, it is exciting to be planning for a year with the prospect of having tremendous shareholder support and a healthy private equity environment. I would like to thank all of our shareholders for their tremendous support over the course of 2009. Not only did you weather the economic storm with us but you also stepped up and kick-started our growth by supporting our successful bought deal in late October.

The management and directors of Alaris expect 2010 to be a year of growth. We expect that accretive new partnerships will create a larger, more diverse company that all of our shareholders will benefit from.

Steve King

President and Chief Executive Officer

DESCRIPTION OF THE BUSINESS AND OPERATIONS

OUR BUSINESS

We are a Canadian private equity company that provides alternative financing to a diversified range of profitable, well-managed private businesses in North America. We use an innovative financing structure that allows us to provide capital to private companies in a manner that maximizes valuations, is tax effective and allows existing owners of the private companies to retain control of their businesses. Our primary objective is to generate predictable, stable cash flows from our Partners to allow us to provide an attractive yet conservative yield as well as liquidity to our investors.

OUR STRUCTURE

We provide cash financing to private companies at an agreed upon valuation, in exchange for a pre-determined distribution or royalty (the "**Distribution**") from such private companies. Our Distribution is received monthly but is determined twelve months in advance in accordance with a mutually agreed upon performance metric, which is based upon a "top-line" financial performance measure of the Private Company Partner, such as gross revenues, gross profit, same store sales or same clinic sales. Each year, our Distribution is adjusted based on the percentage change in the audited performance metric. In keeping with our business objective of generating predictable, stable cash flows, our Distribution is only based on organic growth and/or organic decline of the private company. As such, any growth or decline in the private company from acquisitions, new locations or margin improvements do not get factored into such adjustments.

Our Distribution ranks in priority to a Private Company Partner's common equity. In addition, the Distribution is treated as a pre-tax expense from the Private Company Partner making the after-tax cost of our financing attractive to our Private Company Partners. Our financing structure is characterized as equity, and as a result, principal payments of our financing are not required.

We do not have any significant influence over any of our Private Company Partners nor do we have any ability to exercise control or have any voting rights over the Private Company Partners. Specifically, we do not have any rights to participate in management decisions and are not involved in the day-to-day operations of the Private Company Partner, within the normal course of business. However, we do require that the Private Company Partners provide us with monthly (unaudited) financial statements so we can monitor their financial health, as well as annual (audited) financial statements. Although we do not have any voting rights, we have protective covenants in place with our Private Company Partners to protect our Distributions and typically require our prior consent on a number of items outside of the ordinary course of business, such as:

- Any material change in business of the company
- Material acquisition or divestiture
- Incurring new debt over predetermined levels
- Entering into non-arm's length transactions above prescribed levels

- Mergers or corporate reorganizations
- Extraordinary capital expenditures

OUR PHILOSOPHY

Our structure allows us to monitor the private companies that we provide financing to without needing to be involved in their day-to-day business decisions. We believe business decisions are best made by the people who have built the successful companies that we provide financing to. Through us, such private companies are able to access ongoing capital, remain private and their owners are able to maintain control of their common voting equity.

At the same time, we derive diversified priority-cash returns from businesses that have displayed an ability to be highly profitable in varying economic environments. By supporting management teams that remain fully motivated by their ownership position to run their business profitably, our investors are able to receive stable monthly dividends based on distributions received by us from the private companies that are set 12 months in advance.

In addition, our philosophy is to partner with a Private Company Partner for as long as they require and we do not force an exit strategy upon the owners at any time. A financing by Alaris does not prevent the private company from undertaking a future sale if desired, provided that our prior consent is obtained.

The result for our investors is a revenue stream that generally has low volatility and high predictability due to the "top line" royalty nature of our distributions from our Private Company Partners. Visibility is also created because of the 12 month pre-set payments we receive. Our structure gives us the ability to pay out the vast majority of our revenues in the form of tax effective eligible dividends, thus providing our investors with an attractive yet conservative yield.

OUR GROWTH STRATEGY

Our strategy is to grow our Distributions by partnering with more private companies that have a track record of high levels of free cash flow and consistent profitability. We typically target companies that are family controlled, are typically a poor fit for traditional private equity, and that have owners that intend to use the capital we provide for growth, generational transfers or partial liquidity. Our focus is primarily on private companies in Canada, as well as in the U.S. under the right circumstances.

We intend to partner with proven performers that have attractive operating histories to add to our revenue base. We look for private companies that have shown a history of growth, low cyclicality as well as sustainable free cash flow and strong future opportunities as we will not invest in turn-around situations or companies with a declining asset base. We also look for companies with experienced management teams who have the intention to continue managing the business after partnering with Alaris with no change of ownership following the transaction. This ensures such companies are still run by the capable management and ownership teams that made them such a solid partnership opportunity for Alaris. Companies with low leverage and capital expenditure requirements are also key criterion for us in evaluating new opportunities.

PRIVATE COMPANY PARTNERS

"LifeMark has proven to be an exceptional partner to Alaris over the past 5 years. Alaris continues to provide cost effective equity to LifeMark and LifeMark continues to provide Alaris shareholders with consistent, stable returns. The LifeMark partnership is a perfect example of how Alaris is the best source of capital for management and owner's of a growing private business".

Steve King, CEO, Alaris Royalty Corp.

Overview

LIFEMARK HEALTH is one of Canada's largest private health care providers with over 100 clinics across Canada. Alaris initially partnered with LifeMark in 2005 and has since provided capital an additional 5 times. LifeMark provides rehabilitation and physiotherapy services to private users, worker's compensation and safety boards, private insurance companies and Government Agencies. Since their inception in 1979, LifeMark has posted stable results regardless of the economic conditions or government insurance funding levels.

ASSET CLASS: - Healthcare Services

TOTAL ALARIS CAPITAL INJECTED: - $59,500,000 (6 tranches)

PARTNERSHIP HIGHLIGHTS:

- LifeMark plans to continue to grow by acquisition as it works towards consolidating this fragmented industry.

- LifeMark has grown from 30 clinics to over 100 clinics with over 1600 dedicated healthcare staff, consultants and medical doctors across Canada (except Quebec). The majority of their clinics are free-standing outpatient physiotherapy clinics.

- The revenue streams are very diverse geographically as well as by customer base.

- LifeMark's royalty payment to Alaris has grown organically since 2005 with the smallest percentage increase being 2% and the largest increase being 5%. Following the October 22nd transaction with Alaris of $12M, LifeMark's current royalty payment is $10.25M annually.

- LifeMark's fiscal year end is December 31st.

LifeMark Management:

Craig Gattinger, CEO
Ron Lowe, President
Dan McCrimmon, CFO

Head Office:

Calgary, Alberta

www.lifemark.ca

"When Alaris partnered with MEDIchair our only regret was that it wasn't a bigger company! This business is what we look for in terms of providing steady cash flow and consistent results year after year. The demand for their products is increasing as the aging population requires the products MEDIchair provides".

Steve King, CEO, Alaris Royalty Corp.

Overview

MEDICHAIR franchises sell home medical equipment such as wheelchairs, scooters, lift chairs, bathroom safety products and home accessibility solutions, as well as personal health care products. MEDIchair and its predecessor companies have been in business since 1985 and have offered MEDIchair franchises since 1988. MEDIchair currently has over 67 locations throughout Canada. The initial transaction with MEDIchair was completed in September of 2005 with Alaris providing capital to LifeMark to purchase the MEDIchair master franchise. Therefore, MEDIchair is a wholly owned subsidiary of LifeMark.

ASSET CLASS: - Healthcare Equipment and Supplies

TOTAL ALARIS CAPITAL INJECTED: - $6,500,000

HIGHLIGHTS:

- MEDIchair is a franchise system that collects royalties from a number of franchisees across Canada thus providing for a very stable royalty revenue source to Alaris.

- MEDIchair has over 20 years of consecutive same store sales growth and will benefit from serving the aging Canadian population.

- The royalty payment to Alaris has grown organically in a range of between 4% and 6% every year since 2005.

-The current royalty payment to Alaris is $1.16M.

-Royalty payment is reset after December 31st each year.

Wholly owned subsidiary of LifeMark Health

Head Office:

Calgary, Alberta

www.medichair.ca

"LMS felt the full effects of the global financial crisis we all experienced over the past two years. They have made it through those events with a strong balance sheet and an even stronger platform for success. LMS has a great future ahead of them as they are the supplier of choice in Western Canadian infrastructure and high rise development projects. We are looking forward to the future with LMS as our partner.

Steve King, CEO, Alaris Royalty Corp.

Overview

LOWER MAINLAND STEEL is a British Columbia-based concrete reinforcing steel ("**rebar**") contractor and fabricator. LMS fabricates and installs rebar for construction projects primarily in British Columbia, Alberta and Saskatchewan. As an installer and supplier, LMS has the advantage of having very low fixed costs and fixed assets which allows the company to be profitable during a downturn as it can adjust its labour force to match the activity level. Its core management group has remained unchanged since the company's inception and founders Ron McNeil and Ivan Harmatny have attracted and retained a team of over 500 skilled professionals, each of whom contribute to LMS's success and are rewarded for their excellence.

ASSET CLASS:

- Industrials and Materials (Rebar Installation and Supply)

TOTAL ALARIS CAPITAL INJECTED:

- $59,500,000

PARTNERSHIP HIGHLIGHTS:

- LMS ensures a steady supply of steel for its fabricating yard and, by extension, its customers. This is achieved thanks to strong ties with local and offshore steel sources, including Seattle-based Nucor.

- LMS fortified its supply capabilities by opening its own trading branch and hiring a steel trader with over 25 years experience and contacts with mills around the world.

- Two years ago, LMS worked with the Federal Government and began to host off-shore workers under the federal government's Foreign Worker Program. By tapping into this resource, LMS hosts seasoned workers from India, Britain, Germany, Poland, Scotland and many other countries.

- Because so much infrastructure in Western Canada badly needs to be upgraded or replaced, LMS's activities in the future will include more fabrication, supply and installation of rebar for the many infrastructure projects that will be initiate throughout B.C. and Alberta.

- LMS works on some 70 projects at any given time, installing its own steel for the most part but in some cases serving strictly as a trusted supplier.

-Current royalty payment to Alaris is $2.0M.

-Fiscal year end is September 30th.

LMS Executive Team:

Ron McNeil, Co-Chair & Founder
Ivan Harmatny, Co-Chair & Founder
Norm Streu, COO
Darryl Hebert, CFO
Greg Hubbard, VP Operations

Office and Yard Locations:
Surrey, British Columbia
Calgary, Alberta

www.lmsgroup.ca

"End of the Roll is a perfect example of how Alaris' capital can be used for generational transfer without giving up control. Alaris provided capital to End of the Roll founders so that they could slowly exit the company while training their sons to take over the business upon their retirement. This company is exactly what we look for in new partnerships".

Steve King, CEO, Alaris Royalty Corp.

Overview

END OF THE ROLL is Canada's largest dedicated flooring retailer. EOR targets "budget minded" customers who prefer to purchase in smaller quantities and coordinate private installation in order to save on the costs of using a full service retailer. The discount renovation market is constantly growing as the trend towards home renovations increases. EOR has experienced stable sales during these challenging economic times because they do not supply new home builders.

ASSET CLASS: - Consumer Discretionary (Discount Flooring Covering)

TOTAL ALARIS CAPITAL INJECTED: - $7,200,000

PARTNERSHIP HIGHLIGHTS:

- End of the Roll was incorporated in 1990 and began offering franchise locations in 1994.

- Currently, End of the Roll collects franchise royalties from over 55 franchisees nationwide.

- End of the Roll is the only dedicated flooring franchise system in Canada.

- Alaris' royalty revenue from End of the Roll has increased between 4.5% and 8% per year, with the exception of a 7% drop in 2009 same store sales.

- Prior to 2009, End of the Roll had posted 17 straight years of same store sales growth.

-Current royalty payment to Alaris is $1.35M.

- Fiscal year end for End of the Roll is April 30th.

End of the Roll Management:

Dwayne Ortynski
Urs Steinmann
Cory Ortynski
Gary Steinmann
Ted Cartier, CFO

Head Office:
Surrey, British Columbia

www.endoftheroll.ca

CONSOLIDATED FINANCIAL STATEMENTS OF

ALARIS ROYALTY CORP.

AUDITED STATEMENTS FOR THE YEARS ENDED

DECEMBER 31, 2009 AND 2008

KPMG LLP
Chartered Accountants
2700-205 5 Avenue SW
Calgary AB T2P 4B9

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Telefax (403) 691-8008
Internet www.kpmg.ca

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Alaris Royalty Corp. (the "Entity") as at December 31, 2009 and 2008 and the consolidated statements of operations, deficit, and cash flows for each of the years then ended. These financial statements are the responsibility of the Entity's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2009 and 2008 and the results of its operations and its cash flows for each of the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

KPMG LLP

Calgary, Canada

March 10, 2010

ALARIS ROYALTY CORP.

Consolidated Balance Sheets

	December 31, 2009	December 31, 2008
Assets		
Current assets:		
Cash	$ 3,826,000	$ 1,743,936
Accounts receivable	2,470	11,307
Prepaid expenses	103,472	35,417
Future income taxes (note 10)	2,996,000	3,649,476
Investment tax credit receivable (note 10)	–	150,798
	6,927,942	5,590,934
Investment tax credit receivable (note 10)	11,030,007	6,441,259
Future income taxes (note 10)	22,248,900	25,528,693
Equipment (note 4)	74,477	90,458
Investments (note 3)		
Preferred LP units	111,124,642	98,124,642
Intangible assets	13,070,150	13,243,384
	124,194,792	111,368,026
	$ 164,476,118	$ 149,019,370
Liabilities and Shareholders' Equity/(Deficit)		
Current liabilities:		
Accounts payable and accrued liabilities	$ 939,085	$ 443,553
Dividends payable	802,604	1,094,620
Future income taxes (note 10)	47,808	42,932
Bank indebtedness (note 5)	2,850,000	–
Subordinated debt (note 5)	6,500,000	6,500,000
	11,139,497	8,081,105
Bank indebtedness (note 5)	19,700,000	25,000,000
Future income taxes (note 10)	1,347,755	3,136,988
Deferred credit (note 10)	23,661,017	27,497,912
Shareholders' equity/(deficit):		
Shareholder's capital (note 6)	111,125,039	98,278,747
Warrants (note 6)	845,000	–
Contributed surplus	1,471,333	264,472
Deficit	(4,813,523)	(13,239,854)
	108,627,849	85,303,365
Commitments (note 13)		
Subsequent event (note 14)		
	$ 164,476,118	$ 149,019,370

See accompanying notes to consolidated financial statements.

ALARIS ROYALTY CORP.

Consolidated Statements of Operations and Deficit

	Year ended December 31, 2009	Year ended December 31, 2008
Revenues:		
Royalties and distributions (note 3)	$ 18,066,783	$ 18,934,364
Interest and other	4,787	96,380
	18,071,570	19,030,744
Expenses:		
Interest	2,166,257	8,881,023
Non-cash stock based compensation (Note 8)	1,714,209	8,232,105
Stock based compensation (Note 8)	221,703	102,306
Salaries and benefits	984,933	994,676
Legal and accounting fees	471,848	664,922
Corporate and office	460,018	520,047
Restructuring and financing (Note 1)	-	491,032
Financing	250,000	265,000
Depreciation and amortization	209,449	234,896
	6,478,417	20,386,007
Net Income (Loss) before taxes	11,593,153	(1,355,263)
Future income tax expense (recovery) (note 10)	(5,903,511)	1,696,676
Net Income (Loss) and other comprehensive income for the year	17,496,664	(3,051,939)
Deficit, beginning of year	(13,239,854)	(2,542,839)
Distributions to unitholders (note 7)	-	(2,166,000)
Dividends to shareholders (note 7)	(9,070,333)	(5,479,076)
Deficit, end of year	$ (4,813,523)	$ (13,239,854)
Earnings per share, basic	$ 1.83	$ (0.65)
Earnings per share, fully diluted	$ 1.83	$ (0.65)
Weighted average shares outstanding, basic	9,574,916	4,691,024
Weighted average shares outstanding, fully diluted	9,574,916	4,691,024

See accompanying notes to consolidated financial statements.

ALARIS ROYALTY CORP.

Consolidated Statements of Cash Flows

	Year ended December 31, 2009	2008
Cash provided by (used in):		
Operations:		
Net Income (Loss) for the year	$17,496,664	$(3,051,939)
Add non-cash items:		
Depreciation and amortization	209,449	234,896
Stock based compensation (note 8)	1,714,209	8,232,105
Income tax expense (recovery)	(5,903,511)	1,696,676
	13,516,811	7,111,738
Change in non-cash working capital	436,314	(278,512)
	13,953,125	6,833,226
Investing:		
Purchase of Preferred LP Units	(13,000,000)	–
Purchase of capital assets	(20,234)	(10,239)
	(13,020,234)	(10,239)
Financing:		
Distributions to unitholders	–	(2,166,000)
Dividends to shareholders	(9,362,348)	(4,384,456)
New share capital	12,961,521	51,730,998
Repayment of debt	(2,450,000)	(51,500,000)
Repurchase odd-lot shares	–	(358,932)
	1,149,173	(6,678,390)
Increase in cash	2,082,064	144,597
Cash, beginning of year	1,743,936	1,599,339
Cash, end of year	$ 3,826,000	$ 1,743,936

See accompanying notes to consolidated financial statements

1. Basis of presentation:

On July 31, 2008 Alaris Royalty Corp., formerly 6550568 Canada Inc. ("Alaris" or the "Corporation") acquired Alaris Income Growth Fund L.P. (the "Partnership") (the "Acquisition"). After the Acquisition, the former owners of the Partnership held the largest percentage (although less than 50%) of the Common Voting Shares and provided the Corporation's management, therefore the Partnership was deemed to be the acquirer for accounting purposes. Accordingly, the transaction has been accounted for as a reverse takeover. The share capital up to July 31, 2008 was that of the Partnership. Subsequent to the transaction date, the share capital was that of the Corporation.

Pursuant to the Acquisition, Alaris acquired: (i) the 750,000 issued and outstanding units (the "Alaris Partnership Units") of the Partnership held by Alaris Commercial Trust, a trust owned by the Partnership's largest owner, by the issuance of 666,667 voting common shares in the capital of Alaris ("Common Shares"); and (ii) all of the outstanding shares of Alaris IGF Corp. ("Alaris GP"), the general partner of the Partnership, from the holders thereof, being Alaris Commercial Trust and the management team of the Corporation, who purchased their shares in Alaris GP shortly before the Acquisition pursuant to the terms of employment stock options, by issuance of 666,668 non-voting common shares in the capital of Alaris Royalty Corp. ("Non-Voting Shares"). Alaris GP owns 750,010 Partnership Units, being the remaining issued and outstanding Partnership Units, and therefore, upon the completion of the Acquisition the Corporation acquired directly and indirectly 100% of the issued and outstanding Alaris Partnership Units.

On July 31, 2008, and prior to the Acquisition, Alaris satisfied the release conditions of its previously completed subscription receipt financing and issued an aggregate of 4,607,213 Common Shares to the former holders of subscription receipts in accordance with the terms of the subscription receipts. The subscription receipts had been issued at price of $12 per subscription receipt for aggregate gross proceeds of $55,286,556 less share issue costs of $3,622,225. In addition, the Corporation acquired $83,500,000 of the Partnership's outstanding $90,000,000 subordinated debt from 409790 Alberta Ltd. for $51,500,000 in cash and the issuance of 2,666,667 Common Shares.

Alaris has since continued the business and operations of the Partnership. The Partnership's operations consist primarily of investments in operating entities, typically in the form of long-term license and royalty arrangements or preferred limited partnership interests.

2. Significant accounting policies:

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

(a) Investments:

Investments result from: (1) the direct or indirect purchase of intellectual property from various organizations/vendors and the subsequent license-back of the right for exclusive use to the vendor; or (2) the direct or indirect subscription for a preferred interest in a limited partnership; which interests provide a monthly distribution that is adjusted annually on the basis of a formula linked to revenues, gross margin, same-store sales, or other "top-line" measures as outlined in each of the respective agreements. Investments are initially recognized and measured at cost, including acquisition costs incurred after a letter of intent is signed, such as financial and legal due diligence fees relating directly to the purchase.

Investments that are a royalty structure are being amortized on a straight-line basis over an 80-year period and individually reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Investments that are a preferred interest in a limited partnership are not amortized but are assessed for objective evidence of impairment at each balance sheet date. When there is objective evidence that the investment has been impaired, and there is a decline in the recoverable amount below cost that is other than temporary, the amount of the impairment loss is the difference between the carrying amount of the investment and its fair value. Fair value is estimated using discounted cash flows.

(b) Equipment:

Equipment is recorded at cost. Depreciation is provided for over the estimated useful lives of assets on a declining balance basis.

(c) Intangible assets:

Effective January 1, 2009, the Corporation adopted CICA section 3064 Goodwill and Intangible Assets. The implementation of this standard did not have a material effect on the Company's financial statements.

(d) Revenue recognition:

Revenue consists of amounts generated by licensing intellectual property or distributions from preferred interests in a limited partnership and is recognized when the monthly payments become due and are considered collectible.

2. Significant accounting policies (continued):

(e) Financial instruments:

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity. Upon initial recognition all financial instruments, including derivatives, are recognized on the balance sheet at fair value. Subsequent measurement is then based on the financial instruments being classified into one of five categories: held for trading, held to maturity, loans and receivables, available for sale and other liabilities. The Corporation has designated its financial instruments into the following categories applying the indicated measurement methods:

Financial Instrument	Category	Measurement Method
Cash and cash equivalents	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Preferred LP units	Available for sale	Cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Bank indebtedness	Other liabilities	Amortized cost
Subordinated debt	Other liabilities	Amortized cost

The Corporation will assess at each reporting period whether there is a financial asset, other than those classified as held for trading, that is impaired. An impairment loss, other than temporary, is included in net earnings.

The Corporation has no embedded derivatives.

The Corporation records all transaction costs incurred in relation to the acquisition of investments classified as “available for sale” as an additional cost of the investment.

The Corporation applies trade-date accounting for the recognition of a purchase or sale of cash equivalents and derivative contracts.

(f) Income taxes:

The Corporation follows the asset and liability method of accounting for income taxes. The Corporation is a taxable entity under the Income Tax Act (Canada).

(g) Stock-based compensation:

Stock-based payments to non-employees and direct awards of stock to employees and non-employees are accounted for using a fair-value method of accounting.

2. Significant accounting policies (continued):

(h) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Significant management estimates include stock-based compensation expenses, future income tax amounts, valuation of intangible assets and preferred LP units, collectability of future royalties and distributions, and valuation of outstanding warrants.

3. Investments:

December 31, 2009	Acquisition Cost	Capitalized Costs	Accumulated Amortization	Net Cost
Lifemark Health	$ 59,500,000	$ 291,362	$ –	$ 59,791,362
Lower Mainland Steel	51,000,000	333,280	–	51,333,280
Total Preferred LP Units	110,500,000	624,642	–	111,124,642
End of the Roll	7,200,000	74,920	(431,910)	6,843,010
MEDIchair	6,500,000	83,758	(356,618)	6,227,140
Total Intangible Assets	13,700,000	158,678	(788,528)	13,070,150
	$ 124,200,000	$ 783,320	$ (788,528)	$ 124,194,792

December 31, 2008				
Lifemark Health	$ 46,500,000	$ 291,362	$ –	$ 46,791,362
Lower Mainland Steel	51,000,000	333,280	–	51,333,280
Total Preferred LP Units	97,500,000	624,642	–	98,124,642
End of the Roll	7,200,000	74,920	(340,971)	6,933,949
MEDIchair	6,500,000	83,758	(274,323)	6,309,435
Total Intangible Assets	13,700,000	158,678	(615,294)	13,243,384
	$ 111,200,000	$ 783,320	$ (615,294)	$ 111,368,026

3. Investments (continued):

Royalties and distributions:

	Year ended December 31, 2009	2008
Lifemark Health	$ 8,379,439	$ 7,465,464
Lower Mainland Steel	7,110,007	8,904,210
End of the Roll	1,395,568	1,434,137
MEDIchair	1,181,768	1,130,553
	$ 18,066,783	$ 18,934,364

I – Preferred LP Units

(a) Investment in LifeMark Health Limited Partnership (“LifeMark Health”):

The Corporation holds 900,000 class A preferred partnership units ("LifeMark A Units") and 5,050,000 class B preferred partnership units ("LifeMark B Units") in LifeMark Health (the "LifeMark Investment") and were acquired as follows:

	A Units	B Units	Cost
December 31, 2008	900,000	3,750,000	$ 46,500,000
June 30, 2009	–	100,000	1,000,000
October 22, 2009	–	1,200,000	12,000,000
December 31, 2009	900,000	5,050,000	$59,500,000

Pursuant to the LifeMark Health partnership agreement (the "LifeMark Partnership Agreement") dated December 30, 2004, the LifeMark A Units entitle the Corporation to receive an annual preferred distribution (the "A Unit Preferred Distribution") in priority to distributions on LifeMark Health's other partnership units in a minimum amount of $1.46 million. The minimum amount is adjusted in each subsequent fiscal year to the greater of (i) $1.46 million; and (ii) the A Unit Preferred Distribution for the prior fiscal year multiplied by the percentage increase in LifeMark Health's Same Clinic Sales (as defined in the LifeMark Partnership Agreement), being generally LifeMark Health's annual revenue from clinics that have been open for at least two years, for the previous year. Distributions on the LifeMark A Units are receivable monthly.

3. Investments (continued):

(a) Investment in LifeMark Health Limited Partnership ("LifeMark Health") (continued):

Pursuant to the LifeMark Partnership Agreement, the LifeMark B Units entitle the Corporation to receive an annual preferred distribution (the "B Unit Preferred Distribution") in priority to distributions on LifeMark Health's other partnership units, other than the LifeMark A Units, in an amount equal to the B Unit Preferred Distribution for the prior fiscal year multiplied by the percentage increase or decrease in LifeMark Health's Same Clinic Sales for the previous fiscal year. Distributions on the LifeMark B Units are receivable monthly.

LifeMark Health has the option at any time after December 30, 2009 (i) to repurchase all (but not less than all) of the LifeMark A and B Preferred Units at a pre-negotiated premium to the original purchase price.

(b) Investment in Lower Mainland Steel Limited Partnership ("LMS"):

The Corporation holds 510,000 Preferred partnership units ("LMS Units") in Lower Mainland Steel (the "LMS Investment"). 150,000 of the LMS Units were acquired on February 2, 2007 for an aggregate acquisition cost of $15 million. Alaris acquired another 360,000 LMS Units on December 21, 2007 for an aggregate acquisition cost of $36 million.

Pursuant to the LMS partnership agreement (the "LMS Partnership Agreement") dated April 2, 2007 and as amended December 21, 2007, the LMS Units entitle the Corporation to receive an annual preferred distribution (the "Preferred Distribution") in priority to distributions on LMS' other partnership units. For the year ending December 31, 2009, the Corporation was entitled to a base preferred distribution of $7.1 million. The base is in two distinct portions and is adjusted at two points (January 1st and April 1st) in each subsequent twelve month period to the Preferred Distribution for the prior twelve month period multiplied by the percentage increase or decrease in LMS' Gross Profit (as defined in the LMS Partnership Agreement) for the most recently completed fiscal year. Effective January 1, 2010, the LMS Units will entitle the Corporation to receive approximately $2.1 million over the next twelve months based on the most recently completed fiscal year for LMS (September 30, 2009). Distributions on the LMS Units are paid monthly.

LMS has the option at any time after April 1, 2010 to repurchase all (but not less than all) of the LMS Units at a pre-negotiated premium to the original purchase price.

3. Investments (continued):

II – Intangible Assets

(c) Investment in End of the Roll Carpet and Vinyl ("End of the Roll"):

On May 1, 2005, the Corporation purchased certain intellectual property (the "ER IP") from End of the Roll for an aggregate purchase price of $7.2 million pursuant to an acquisition agreement (the "ER Acquisition Agreement") dated May 1, 2005 (the "End of the Roll Investment"). The ER IP includes End of the Roll's trademarks, trade names, website, and proprietary system for operating franchises. The ER IP was subsequently licensed to End of the Roll for a term (the "Term") of 80 years pursuant to a license agreement (the "ER License Agreement") dated May 1, 2005 in consideration of an annual royalty (the "Royalty"). The Royalty for the first 12-month period from May 1, 2005 to April 30, 2006 was $1.2 million (the "Initial Royalty"). The Royalty for each subsequent 12-month period during the Term is calculated by increasing or decreasing the Royalty for End of the Roll's fiscal year just ended by the percentage change in Same Store Sales (as defined in the ER License Agreement), being generally the total sales of all franchisee retail stores that have been open for at least two years, over the fiscal year immediately preceding the fiscal year just ended. Royalty payments are receivable monthly.

End of the Roll has the option at any time after May 1, 2010 to repurchase the ER IP (and terminate the Royalty) at a pre-negotiated premium to the original purchase price.

(d) Investment in MEDIchair Ltd. ("MEDIchair"):

On September 12, 2005, the Corporation purchased certain intellectual property (the "MEDIchair IP") from MEDIchair for an aggregate purchase price of $6.5 million (the "MEDIchair Investment") pursuant to an acquisition agreement (the "MEDIchair Acquisition Agreement") dated September 12, 2005. The MEDIchair IP includes MEDIchair's trademarks, trade names, website, and proprietary system for operating franchises. The MEDIchair IP was subsequently licensed to MEDIchair for a term (the "Term") of 80 years pursuant to a license agreement (the "MEDIchair License Agreement") dated September 12, 2005 in consideration of an annual royalty (the "Royalty"). The Royalty for the 12-month period from October 1, 2006 to September 30, 2007 was $1.053 million. The Royalty for each subsequent 12-month period during the Term is calculated by increasing or decreasing the Royalty in MEDIchair's fiscal year just ending by the percentage change in Same Store Royalties (as defined in the MEDIchair License Agreement), being generally the total annual royalties received by MEDIchair from all franchisees whose retail stores have been opened for at least two years over the fiscal year immediately preceding the fiscal year just ending, subject to a maximum percentage change in any year of 10%.

MEDIchair has the option at any time after October 1, 2010 to repurchase the MEDIchair IP (and terminate the Royalty) at a pre-negotiated premium to the original purchase price.

4. Equipment:

Equipment consists of leasehold improvements, furniture and fixtures, and computer equipment. The amounts are net of accumulated depreciation of $104,532 (December 31, 2008 - $279,927).

5. Debt

The Corporation has a $25,000,000 secured revolving credit facility with a syndicate of Canadian chartered banks. Interest is payable at the lenders' prime rate plus 3.00% (5.25% at December 31, 2009). The term out date under the credit facility is December 17, 2010. If an extension is not received by December 17, 2010, the facility will be repaid in thirty-six equal monthly installments commencing January 18, 2011. As part of an amendment to the original facility, the banks required principal repayments of $950,000 on December 31, 2009 and then in each of the first three quarters in 2010 (total of $2.85 million). Therefore at December 31, 2009, only the required principal repayments are shown as a current liability as no further payments would be required before January 2011 under the terms of the agreement. There are financial covenants under this facility and at December 31, 2009, the Corporation is in compliance with each of the covenants based on a letter received by the Corporation from the lending syndicate clarifying the exclusion of certain non-cash and extraordinary amounts in the calculation of the covenants for the remainder of the term of the agreement. Bank fees of $250,000 were paid in the year ended December 31, 2009 (2008 - $265,000) as a result of the renewal of the facility in December 2009.

The Corporation has a $6,500,000 unsecured demand facility with a company controlled by its largest shareholder. The loan was originally $90,000,000 and on July 31, 2008, $51,500,000 was repaid and $32,000,000 was purchased for shares of the Corporation. Interest is payable at 13.00% per annum.

6. Shareholders equity:

The Corporation has authorized, issued and outstanding, 10,799,098 voting, 666,668 non-voting common shares.

Issued Common Shares	Number of Shares	Amount
Balance at December 31, 2008	8,455,169	$90,278,747
Issued in lieu of dividends on restricted share units	12,679	132,348
Issued by short form prospectus	2,300,000	12,955,000
Short form prospectus costs	-	(838,483)
Income tax benefit of share issue costs		222,427
Issued upon RSUs vesting to Directors	31,250	375,000
Balance at December 31, 2009 (Voting shares)	10,799,098	103,125,039
Non-voting shares	666,668	8,000,000
Balance at December 31, 2009 (Voting, non-voting)	11,465,766	$ 111,125,039

Issued Warrants	Number of Warrants	Amount
Balance at December 31, 2008	–	$ –
Issued on October 22, 2009	1,150,000	845,000
Balance at December 31, 2009	1,150,000	$ 845,000

The warrants are exercisable at $7.50 at any time up to twenty-four (24) months from the date of their issue (October 22, 2011), subject to a mandatory exercise if, any time after twelve (12) months from their issue, if the volume weighted average price of the voting common shares on the Toronto Stock Exchange is above $9.00 per common share for twenty (20) consecutive trading days.

7. Dividends and Distributions:

For January and February 2009, the Corporation had declared a dividend of $0.12 per voting and non-voting common share and for each month from March through December, the Corporation declared a dividend of $0.07 per voting and non-voting common share ($9,070,333 in aggregate).

Prior to the Acquisition in 2008, the Partnership paid $1.44 per unit in distributions ($2,166,000) to its unitholders. After the Acquisition, dividends were declared in August 2008 through December 2008 at $0.12 per share totalling $5,479,076 for the prior year.

8. Stock-based compensation:

The Corporation has a Restricted Share Unit Plan ("RSU Plan") and a Stock Option Plan as approved by shareholders at a special shareholders meeting on July 31, 2008 that authorizes the Board of Directors to grant awards of RSUs and Options subject to a maximum of ten percent of the issued and outstanding common shares of the Corporation.

The RSU Plan will settle in voting common shares which may be issued from treasury or purchased on the Toronto Stock Exchange. The Corporation has reserved 591,662 and issued 384,400 RSUs to management and Directors as of December 31, 2009. The RSUs issued to directors vest over a three-year period. The RSUs issued to management (290,650) do not vest until the end of the three-year period and are subject to certain performance conditions relating to operating cash flow per share. The stock-based compensation expense relating to the RSU Plan is based on the issue price at the time of grant and management's estimate of the future performance conditions and will be amortized over the thirty-six month vesting period. Payments in lieu of dividends on the unvested RSUs are made monthly in accordance with the Corporation's dividend policy. Payments to management are split evenly between cash and common shares.

For the year ended December 31, 2009, the Corporation incurred stock-based compensation expenses of $1,935,912 which includes: $1,505,300 (non-cash expense) for the 2009 portion of the RSU Plan expense that is to be amortized over the thirty-six month vesting period of the plan; $221,703 for payments to staff and directors in lieu of dividends under the RSU Plan; $132,348 (non-cash expense) for shares issued in lieu of dividends under the RSU Plan; and $76,561 (non-cash expense) for the 2009 amortization of the fair value of outstanding stock options. The Corporation has reserved 323,973 and issued 319,150 options (219,150 in 2008 and 100,000 in 2009) that vest over a four-year period and expire in five years. The fair value of the warrants (note 6) and options were calculated using a Black-Scholes model with the following assumptions:

	Warrants 2009	Options 2008	Options 2009
Dividend yield	12%	12%	12%
Expected volatility	53%	38%	56%
Risk free rate of return	2.46%	2.73%	2.74%
Expected life	2 years	5 years	5 years
Weighted average value per option/warrant	$ 0.7560	$ 1.2400	$ 1.3430

9. Financial risk management

Effective January 1, 2009, the Corporation adopted CICA sections 3862 Financial Instrument Disclosure and 3863 Financial Instrument Presentation and the information regarding the enhanced disclosure is set out below.

(a) Credit risk and other price risk:

Other price risk is the risk that future cash flows associated with portfolio investments will fluctuate. Cash flow from investments are generally based on a percentage of the investments gross revenue, same store sales, gross margin or other similar revenue. Accordingly, to the extent that the financial performance of the investment declines in respect of the relevant performance metric, cash payments to the Corporation will decline. Portfolio investment agreements allow for the repayment of investments at the option of the portfolio entity, and such repayment could affect future cash flows.

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Corporation's investments. Concentrations of credit risk exist when a significant proportion of the Corporation's assets are invested in a small number of individually significant investments, and investments with similar characteristics and/or subject to similar economic, political and other conditions that may prevail.

The Corporation is exposed to credit related losses on current and future amounts receivable pursuant to investment agreements. In the event of non-performance by counterparties, future royalty and distributions revenue from the investments could be reduced, resulting in impairment of investment values. The investment agreements provide that payments are receivable monthly no later than the last day of the month. As at December 31, 2009, all amounts receivable for the year ended December 31, 2009 had been received.

Cash and cash equivalents consist of cash bank balances and short-term deposits maturing in less than 90 days. The Corporation manages the credit exposure related to short-term investments by selecting counter parties based on credit ratings and monitors all investments to ensure a stable return, avoiding complex investment vehicles with higher risk such as asset backed commercial paper.

The carrying amount of investments, accounts receivable and cash and cash equivalents represents the maximum credit exposure. The Corporation does not have an allowance for doubtful accounts as at December 31, 2009 and did not provide for any doubtful accounts nor was it required to write-off any receivables or investments during the year ended December 31, 2009.

9. Financial risk management (continued):

(b) Liquidity risk:

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they are due. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Corporation's reputation. The Corporation has the following financial instruments that mature as follows:

	Total	0-6 Months	6 mo – 1 yr	1 – 2 years	3 – 4 years
Accounts payable and accrued liabilities	939,085	939,085	0	0	0
Dividends payable	802,604	802,604	0	0	0
Bank indebtedness	22,550,000	1,900,000	950,000	13,133,333	6,566,667
Subordinated debt	6,500,000	6,500,000	0	0	0
Total	**30,791,689**	**10,141,689**	**950,000**	**13,133,333**	**6,566,667**

(c) Market risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices, and interest rates will affect the Corporation's net earnings or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

Foreign currency exchange rate risk and commodity price risk

The Corporation does not have any direct exposure to foreign currency exchange rate risk or commodity price risk. The Corporation had no forward exchange rate contracts or commodity price contracts in place as at or during the year ended December 31, 2009.

9. Financial risk management (continued):

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Corporation is exposed to interest rate fluctuations on its bank debt that bears a floating rate of interest. As at December 31, 2009, if interest rates had been 1% lower with all other variables held constant, net income for the period would have been $225,000 higher, due to lower interest expense. An equal and opposite impact would have occurred to net income had interest rates been 1% higher.

The Corporation had no interest rate swap or financial contracts in place as at or during the year ended December 31, 2009.

(d) Capital management:

Effective January 1, 2009, the Corporation adopted CICA section 1535 Capital Disclosures. Information regarding the enhanced disclosure is set out below.

The Corporation has entered into a series of agreements that resulted in the Corporation becoming a publicly owned company. As a result of the recent change in circumstances of the Corporation's capital, management of the Corporation has not yet determined the long-term objectives or policies that will be applicable for capital management in future periods.

(e) Fair value of financial instruments:

The Corporation's financial instruments as at December 31, 2009 and December 31, 2008 include cash and cash equivalents, accounts receivable, investments, accounts payable and accrued liabilities, bank indebtedness and subordinated debt. The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and approximate their carrying amounts due to their short-terms to maturity.

Bank indebtedness bears interest at a floating market rate and accordingly the fair market value approximates the carrying value. The subordinated debt is due to the Corporation's largest shareholder and, accordingly, the fair value is not readily determinable. The fair values of the available for sale investments are not readily determinable with sufficient reliability due to the lack of similar instruments in the market.

The Corporation manages capital by monitoring certain debt covenants set out in its credit facility. The Corporation has a maximum senior debt to contracted EBITDA of 1.5:1 (1.28:1 at December 31, 2009). EBITDA is defined as net income before interest expense, income taxes, depreciation and amortization. Additionally, a minimum tangible net worth requirement of $104,950,000 is in place ($115.7 million at December 31, 2009). Tangible net worth is defined as subordinated debt plus shareholders equity. In order to acquire more royalties, the Corporation needs to access public equity markets to fund the acquisitions and manage the business within the bank covenants. The Corporation was in compliance with all debt covenants at December 31, 2009.

10. Income taxes

Income tax expense is calculated by using the combined federal and provincial statutory income tax rates. Prior to the restructuring on July 31, 2008, the entity was structured as a 100% flow-through entity and taxes were payable only by the unitholders. The provision for income tax differs from that which would be expected by applying statutory rates. A reconciliation of the difference is as follows:

	Year December 31, 2009	Year ended December 31, 2008
Earnings (loss) before income taxes	$11,601,281	$ (1,355,263)
Combined federal and provincial statutory income tax rate	29.00%	29.50%
Expected income tax provision	$ 3,364,371	$ (399,803)
Impact of restructuring	-	1,474,243
Non-deductible expense (recoveries)	498,997	2,435,543
Increase (decrease) in valuation allowance	(4,963,992)	1,874,253
Loss carryforwards expired	2,780,171	
Drawdown of deferred credit	(3,836,895)	(3,065,037)
Income allocated to former partners	-	(638,970)
Net impact of investment tax credits	(3,407,676)	-
Rate changes and other	(338,487)	16,447
	$(5,903,511)	$ 1,696,676

The valuation allowance was decreased as a result of the extension of expiry dates for investment tax credits in 2009.

The income tax effect of the temporary differences that give rise to the Corporation's future income tax assets and liabilities are as follows:

	Year ended December 31 2009	Year ended December 31, 2008
Future income tax assets (liabilities):		
Non-capital losses and unclaimed scientific research and development expenses ("SRED")	$27,040,431	$33,114,722
Equipment	93,943	84,893
Share issue costs	962,065	1,027,439
Intangible assets	(1,489,600)	(1,532,908)
Investment tax credits	(2,757,502)	(1,731,905)
	23,849,337	30,962,241
Valuation allowance	-	(4,963,992)
	$23,849,337	$25,998,249

10. Income Taxes (continued):

The future income taxes as presented on the balance sheet are comprised of:

	Year ended December 31, 2009	Year ended December 31, 2008
Current assets	$ 2,996,000	$ 3,649,476
Long-term assets	22,248,900	25,528,693
Current liabilities	(47,808)	(42,932)
Long-term liabilities	(1,347,755)	(3,136,988)
	$ 23,849,337	$ 25,998,249

As at December 31, 2009, the Corporation has non-capital losses available to reduce income tax in future years that expire from time to time as follows:

2012	$ 24,024,448
2013	21,537,689
2024 and later	3,381,931
	$ 48,944,068

As at December 31, 2009, the Corporation has unused federal income tax credits which expire from time to time as follows:

2015	$ 50,210
2016	57,344
2017	133,712
2018	150,798
2019	1,623,342
2020	1,935,046
2021	1,295,097
2022	3,296,237
2023	1,840,597
2024	647,624
	$ 11,030,007

10. Income Taxes (continued):

As at December 31, 2009, the Corporation has a deferred credit of $23,661,017:

Opening deferred credit	$ 30,562,949
Drawdown in prior years	(3,065,037)
Drawdown in current period	(3,836,895)
	$ 23,661,017

The Corporation has research and development expenditures not deducted at the end of the year, to be deducted over an indefinite period for an amount of $58,131,473.

11. Recent accounting pronouncements not yet adopted or adopted in 2009:

New pending adoption:

The CICA's Accounting Standards Board confirmed the changeover from Canadian GAAP to IFRS (International Financial Reporting Standards) will be required for publicly accountable enterprises beginning on January 1, 2011. The Corporation has developed an implementation plan that includes a preliminary GAAP assessment, detailed quantification of the differences between Canadian GAAP and IFRS, the preparation of an opening balance sheet under IFRS for January 1, 2010 and a transition plan for elections under IFRS 1. The Corporation has begun to evaluate the impact of adoption and while the process is not complete, we have identified the following differences: the Preferred LP units will be required to be re-valued to fair value at each balance sheet date, and there will be changes to the fair value calculations for non-cash stock-based compensation expenses including expanded disclosure.

The new standards for business combinations, consolidated financial statements and non-controlling interests are not expected to have a material impact on the Corporation's financial statements.

Adopted:

The matters raised in EIC 173 requiring the Corporation to consider its credit risk and counterparty credit risk in establishing fair value of financial assets and liabilities are not expected to have a material impact on the Corporation's financial statements.

Financial instruments – disclosure, amends previously issued guidance to include additional disclosure requirements about fair value measurements of financial instruments and liquidity risk. These additional disclosures are included in our annual financial statements.

12. Related party transactions:

The Corporation has a $6.5 million demand loan with a company owned by its largest shareholder. For the year ended December 31, 2009, the Corporation paid interest of $845,000 to this company (Year ended December 31, 2008 - $7,162,646).

On July 31, 2008 the Corporation completed the Acquisition of the Partnership. In connection with the Acquisition the Corporation issued 3,111,111 Common Shares and paid $51,500,000 in cash to entities owned or controlled by a director, and the largest shareholder, of the Corporation, in exchange for $83,500,000 of the Partnership's subordinated debt and 750,000 units of the Partnership. In addition, the Corporation issued 666,668 Non-Voting Shares to the management of the Corporation, in exchange for the 666,667 shares of Alaris GP, the general partner of the Partnership, held by them.

13. Commitments:

On March 25, 2009, the Corporation signed a seven-year lease at a new location that was to commence July 1, 2009 ending June 30, 2016. The commencement date was delayed until after December 1, 2009.

2010	$ 128,320
2011	128,320
2012	128,855
2013	134,736
2014	134,736
2015	134,736
2016	123,508
	$ 913,211

14. Subsequent event:

Subsequent to December 31, 2009, shareholders exercised 157,900 warrants resulting in the issuance of 157,900 voting common shares at $7.50 per share for total proceeds of $1,184,250.

MANAGEMENT'S DISCUSSION & ANALYSIS

ALARIS ROYALTY CORP.

MANAGEMENT'S DISCUSSION & ANALYSIS

MARCH 10, 2010

This management's discussion and analysis ("**MD&A**") should be read in conjunction with the annual audited financial statements for Alaris Royalty Corp., formerly 6550568 Canada Inc. ("Alaris" or the "Corporation") for the years ended December 31, 2009 and December 31, 2008. The financial statements of the Corporation have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Certain dollar amounts in the MD&A have been rounded to the nearest thousands of dollars.

This MD&A contains forward-looking statements that are not historical in nature and involve risks and uncertainties. Forward-looking statements are not guarantees as to the Corporation's future results since there are inherent difficulties in predicting future results. Accordingly, actual results could differ materially from those expressed or implied in the forward-looking statements. See "Forward Looking Statements" for a discussion of the risks, uncertainties and assumptions relating to those statements. Some of the factors that could cause results or events to differ from current expectations include, but are not limited to, the factors described under "Risk Factors". This MD&A also refers to certain non-GAAP measures, including EBITDA, Normalized EBITDA and Available Working Capital, to assist in assessing the Corporation's financial performance. The terms EBITDA, Normalized EBITDA and Available Working Capital (the "**Non-GAAP Measures**") are financial measures used in this MD&A that are not standard measures under GAAP. The Corporation's method of calculating the Non-GAAP Measures may differ from the methods used by other issuers. Therefore, the Corporation's Non-GAAP measures may not be comparable to similar measures presented by other issuers. See "Results of Operations" for a reconciliation of EBITDA to net income and "Liquidity" for a reconciliation of Available Working Capital to working capital.

EBITDA refers to net earnings determined in accordance with GAAP, before depreciation and amortization, net of gain or loss on disposal of capital assets, interest expense and income tax expense. EBITDA is used by management and many investors to determine the ability of an issuer to generate cash from operations. Management believes EBITDA is a useful supplemental measure from which to determine the Corporation's ability to generate cash available for debt service, working capital, capital expenditures, income taxes and dividends.

Normalized EBITDA refers to EBITDA excluding items that are non-recurring in nature. Items include expenses incurred in connection with the Acquisition and include non-cash stock option and other transaction related costs.

Available Working Capital refers to current assets less current liabilities, with an exclusion of certain current liabilities and certain current assets, as more particularly described in "Working Capital" of this MD&A.

The Corporation has provided a reconciliation of net income (loss) to EBITDA and Normalized EBITDA and working capital to Available Working Capital in this MD&A. These Non-GAAP measures should only be used in conjunction with the Corporation's annual audited statements, excerpts of which are available below, while complete versions are available on SEDAR at www.sedar.com.

OVERVIEW

On July 31, 2008, Alaris completed the acquisition (the "**Acquisition**") of Alaris Income Growth Fund Partnership ("**Alaris Partnership**"), a partnership that was indirectly owned by Alaris Income Growth Fund (the "**Fund**") and management. Alaris has continued the business and operations of Alaris Partnership for accounting purposes, the acquisition has been accounted for as a reverse take-over with Alaris Partnership being considered the acquiring entity.

The Corporation earns its revenues by investing capital in private businesses (individually, a "**Private Company Partner**" and collectively the "**Partners**"). The Corporation's revenue consists of royalties and preferred distributions received in regular monthly payments that are contractually agreed to between the Corporation and each Private Company Partner. These payments are set for twelve months at a time and adjusted annually based on the audited performance of each Private Company Partner's gross revenue, gross margin, same store sales, or other similar "top-line" performance measure.

The Corporation has limited general and administrative expenses with only seven employees. Interest costs have historically been significant, as the Corporation's transactions were initially funded entirely by debt until the changes to the capital structure on July 31, 2008 resulting from the Acquisition and the subscription receipt financing.

RESULTS OF OPERATIONS

Year Ended December 31, 2009 Compared to Year Ended December 31, 2008

Revenues for the year ended December 31, 2009 reflect royalties and distributions from transactions involving each of the four Partners. In the period, revenues from the Partners totaled $18.1 million compared to $18.9 million in the year ended December 31, 2008. The decrease of 4.6% compared to the prior period is a result of year over year performance metric adjustments from each of the Partners. Revenues from LifeMark Health Partnership ("**LifeMark**") were $8,379,439 compared to $7,465,464 in the same prior year period, an increase of 12.2%. 5.6% of that increase can be attributed to the same clinic sales increase that increased distributions from LifeMark effective January 1, 2009 and the remainder of the increase is due to further transactions with LifeMark on July 30, 2009 and October 22, 2009. Revenues from LMS Reinforcing Group ("**LMS**") were $7,110,007 in the year compared to $8,904,210 in the prior year, a decrease of 20.2% due to the year over year performance adjustment based on the change in gross profit for LMS effective Jan 1, 2009. Revenues from End of the Roll Carpet & Vinyl ("**End of the Roll**") were $1,395,568 in the year compared to $1,434,137 in the prior year, a decrease of 2.7%. There was a same store sales adjustment to the annual royalty of -7.4% effective May 1, 2009 which was partially offset by a same store sales increase of 4.5% for the first four months of 2009. Revenues from MEDIchair Ltd. ("**MEDIchair**") were $1,181,768 in the year compared to $1,130,553 for the prior year, an increase of 4.5% due to the same store sales increase to the royalty that was effective October 1, 2008. See "Private Company Partner Update" for more information on the individual Partners' performance.

Interest and other income was only $4,788 in 2009 compared to $96,380 in 2008 because in 2008, the Corporation earned a significant portion of the total (over $50,000 in interest income) as the proceeds ($55 million) for the subscription receipts relating to the Acquisition were held in Trust for a couple of weeks pending the closing of the Acquisition.

Interest expense of $2,166,257 was significantly lower in the year compared to $8,881,023 in the prior year because of a change in capital structure. From January to July 2008, Alaris Partnership's then largest unitholder provided a $90,000,000 subordinated debt facility at 13% per annum interest. The $90,000,000 of subordinated debt was reduced to $6.5 million on July 31, 2008 as part of the Acquisition and utilizing the equity raised in July 2008, significantly reducing the debt levels of the Corporation for the remainder of 2008 and all of 2009. Additionally, $2,450,000 of debt was repaid during 2009 amid a declining interest rate environment reducing interest costs.

In the year ending December 31, 2009, the Corporation recorded non-cash stock based compensation expenses totaling $1,714,209 that included: $1,505,300 to amortize the fair value of the RSU Plan; $76,561 to recognize the fair value of outstanding stock options; and $132,348 to recognize the fair value of shares issued to management in lieu of dividends under the RSU Plan. Also in the year, the Corporation made cash payments of $221,703 to employees and directors in lieu of dividends under the RSU Plan and there were no such payments in 2008 until November. There were significant non-cash stock-based compensation expenses in the year ended December 31, 2008 ($8,232,105), as $7,933,333 was expensed as a result of management options exercised in July 2008. Salaries and benefits were consistent year over year at just under $1 million.

Legal and accounting expenses were $471,848 for the year ended December 31, 2009 compared to $664,922 for the prior year. The 29% decline is due to increased professional fees in the prior year, specifically for the July 31, 2008 Acquisition. Also, additional legal work is being completed by in-house counsel rather than the Corporation's external legal advisors during 2009 reducing the amount of general legal fees in the current year. Legal fees include securities regulatory expenses while accounting fees include annual audit, quarterly review and special engagement costs.

Corporate and office expenses were $460,018 compared to $520,047 in the prior year and include office rent, travel and corporate administrative expenses. The 11.5% decrease was due mostly to the new office lease where penalties for late occupancy meant the commencement date of the new lease was pushed back into the fourth quarter of 2009 (the former lease expired June 30, 2009). Most other administrative costs including travel and entertainment were lower as part of a concerted effort to reduce costs.

Amortization and depreciation include the amortization of the intangible assets and the depreciation of capital assets. The Corporation amortizes its intangible assets over the term of the licensing agreement and depreciates capital assets over the estimated useful lives. The Corporation does not amortize preferred interests in limited partnerships. Since these transactions are treated as financial instruments, they are assessed for objective evidence of impairment at each balance sheet date. The Corporation recorded depreciation of $36,216 and amortization of $173,233 in the year ended December 31, 2009. Depreciation was lower than in previous quarters as the Corporation's office lease for its former office space expired June 30, 2009 and there were some leasehold improvements being depreciated up until that date. Amortization was identical to amounts recorded in 2008.

The Corporation recorded net income of $17.5 million, EBITDA of $14.0 million and Normalized EBITDA of $15.7 million for the year ended December 31, 2009 compared to a net loss of $3.0 million, $7.8 million of EBITDA and $16.5 million of Normalized EBITDA for the year ended December 31, 2008. The significant increase in net income can be attributed to the $7.9 million in non-cash stock option expenses in July 2008, a $5.9 million recovery in future income tax expense as a result of the extension of expiry dates for investment tax credits, decreased interest costs resulting from the repayment of $83.5 million in subordinated debt in July of 2008, and $1.5 million in future income tax expenses recorded in

September 2008. The modest decline in Normalized EBITDA is a result of increased administrative costs that come from being a public company and the net impact of performance metric adjustments to the annual royalties and distributions from the Partners.

Reconciliation of Net Income to EBITDA (thousands)	Year ending December 31, 2009	Year ending December 31, 2008
Net Income	$17,497	$(3,052)
Adjustments to Net Income:		
Amortization	209	235
Interest	2,166	8,881
Income tax expense	(5,904)	1,697
EBITDA	**$13,968**	**$7,761**
Normalizing Adjustments:		
Non-cash stock based compensation	1,715	8,232
Tax and financial diligence costs	-	491
Normalized EBITDA	**$15,683**	**$16,484**

For the year ending December 31, 2009, dividends were declared for January and February at $0.12 per common share and for March through December at $0.07 per common share (voting and non-voting) totalling $9,070,333 for the year. Prior to the Acquisition in 2008, Alaris Partnership paid $1.44 per unit in distributions ($2,166,000) to its unitholders. After the Acquisition, dividends were declared in August 2008 through December 2008 at $0.12 per share totalling $5,479,076 for the prior year.

Cash held at December 31, 2009 of $3.8 million was to satisfy the dividend declared in December 2009 (payable January 15, 2010) and trade payables leaving cash after these payments of approximately $2.1 million.

The Corporation has a $25 million senior debt facility with a two-member Canadian bank syndicate, which was drawn to $22.55 million at December 31, 2009. Interest is paid monthly at the lenders' prime rate plus three percent per annum (5.25% at December 31, 2009). The Corporation is required to repay $950,000 per quarter on March 31, June 30 and September 30, 2010. At December 31, 2009, the Corporation also had a $6.5 million demand subordinated debt facility from a company owned by the Corporation's largest shareholder. Interest is paid monthly at 13% per annum.

The Corporation has recorded a $22.2 million future income tax asset on its balance sheet to reflect the accounting value of unused tax pools based on the Corporation's internal projections. An offsetting liability has been recorded as a deferred charge for the amount of the tax asset less the fair value of the shares held by the shareholders of the Corporation prior to the July 31, 2008 Acquisition.

Three Months Ended December 31, 2009 Compared to Three Months Ended December 31, 2008

Revenues for the three months ended December 31, 2009 were $4,792,119 compared to $4,779,224 million in the three months ended December 31, 2008. Revenues from LifeMark were $2,434,311

compared to $1,866,366 in the same prior year period, an increase of 30.4%. 5.6% of that increase can be attributed to the same clinic sales increase that increased distributions from LifeMark effective January 1, 2009 and the remainder of the increase is due to two further transactions with LifeMark on July 30, 2009 and October 22, 2009 (a total of $13 million contributed at an 18.2% yield based on the first year of distributions). Revenues from LMS were $1,733,250 in the period compared to $2,259,750 in the same prior year period, a decrease of 23.3%, which was identical to the year over year change in gross profit for LMS. Revenues from End of the Roll were $320,951 in the period compared to $346,638 in the same prior year period, a decrease of 7.4%, again identical to the same store sales adjustment to the annual royalty effective May 1, 2009. Revenues from MEDIchair were $302,456 in the period compared to $283,940 for the same prior year period, an increase of 6.5% which was higher than the 4.1% same store sales increase to the royalty that was effective January 1, 2009 because the same store sales adjustment was higher than expected when estimates were made in the last quarter of 2008 and the additional revenue was recorded in 2009. See "Private Company Partner Update" for more information on the individual Partners' performance.

Interest expense was $524,766 in the last three months of 2009 compared to $602,780 in the same period in 2008. The 13% decline is due to lower interest rates as well as a lower amount of outstanding senior debt ($25 million at December 31, 2008 and $22.55 million at December 31, 2009).

In the three months ending December 31, 2009, the Corporation recorded $949,940 in non-cash stock based compensation expense compared to $401,061 in the same period in 2008 that included: $896,500 to amortize the fair value of the Restricted Share Unit Plan ("RSU Plan") (2008 - $252,933); $25,000 to recognize the fair value of outstanding stock options (2008 - $11,544); and $28,440 to recognize the fair value of shares issued to management in lieu of dividends under the RSU Plan (2008 - $51,417). Also in the last three months of 2009, the Corporation made cash payments of $49,512 to employees and directors in lieu of dividends under the RSU Plan compared to $85,167 in the same period in 2008. The decrease in the shares issued and payments in lieu of dividend amounts are due to the March 2009 decrease in the dividend rate from $0.12 per share to $0.07 per share that impacts the shares and cash issued in lieu of dividends under the RSU Plan. The increase in the amortization of the RSU Plan was due to an extra month of amortization (RSU Plan was only in existence for the last two months of 2008) as well as an adjustment to the amortization schedule as a result of the Board of Directors resetting the performance targets in the Plan in December of 2009.

Legal and accounting expenses were $94,147 for the three months ended December 31, 2009 compared to $353,642 for the same period in 2008. In the fourth quarter of 2008, the Corporation incurred significant non-recurring expenses that included Toronto Stock Exchange listing fees of $110,000 as well as significantly higher than normal costs relating to the first quarterly review and annual audit for the Corporation after the Acquisition. There were also additional legal fees relating to the first few months operating as a publically listed company.

Corporate and office expenses were $106,466 for the three months ended December 31, 2009 compared to $226,572 for the same period in 2008. Costs include office rent, travel and corporate administrative expenses and the significant decrease is due in large part to a rent free period in the last five months of 2009 as well as higher than normal costs in 2008 relating to the first few months operating as a public company, combined with lower general and administrative expenses in 2009 as previously discussed.

The Corporation recorded depreciation and amortization of $48,080 in the three months ended December 31, 2009, less than the $58,893 recorded in the same period in 2008 as there were leasehold improvements being amortized under the Corporation's old lease in 2008 which ended in June 2009.

The Corporation recorded net income of $8.6 million, and EBITDA of $3.0 million for the three months ended December 31, 2009 compared to net income of $2.5 million and EBITDA of $3.3 million for the three months ended December 31, 2008. There were no normalizing adjustments in either period. The significant increase in net income is due to a $5.9 million recovery in future income tax expense as a result of the extension of expiry dates for investment tax credits and the 9.5% decrease in EBITDA is a result of the $549,000 increase in non-cash stock based compensation expenses in the fourth quarter of 2009 partially offset by higher than normal legal and accounting and corporate and office expenses in the fourth quarter of 2008.

Reconciliation of Net Income to EBITDA (thousands)	3 months ending December 31, 2009	3 months ending December 31, 2008
Net Income	$8,621	$2,491
Adjustments to Net Income:		
Amortization	48	59
Interest	525	603
Income tax expense	(6,186)	153
EBITDA	**$3,008**	**$3,306**

Dividends were declared in each of the three months of the current quarter for an aggregate total of $0.21 per common share (voting and non-voting) compared to $0.36 per common share for the three months ended December 31, 2008.

PRIVATE COMPANY PARTNER UPDATE

The Corporation's interest in each of the Partners consist of a preferred partnership interest or ownership of intellectual property with a return based on a formula linked to a top-line metric (sales or gross profit) rather than a residual equity interest in the net earnings of such entities. The Corporation's role with each of the Partners is passive in all cases. The Corporation has no involvement in the day to day business of each Private Company Partner and has no rights to participate in management decisions. The Corporation does not have any significant influence over any of the Partners nor does it have the ability to exercise control over such Partners. Instead, the Corporation has certain restrictive covenants in place designed to protect the ongoing payment of the annual royalties and distributions payable to Alaris. In addition, the Partners are required to obtain the consent of Alaris prior to entering into a material event outside the normal course of business. Such events generally include acquisitions & divestitures, major capital expenditures and incurring additional indebtedness.

LifeMark – Same clinic sales increased in 2008 over 2007 by 5.63% as the services provided by LifeMark were not negatively impacted by the economy. Physiotherapy and rehabilitation services have not historically seen any significant year over year swings as people will continue to get injured and require the services that LifeMark provides. Based on internally prepared, unaudited financial statements, LifeMark has experienced continued same clinic sales growth in 2009 but at a rate slightly lower than the

prior years' results as 2008 same clinic sales results were higher than can be expected going forward. LifeMark has over 100 clinics across Canada, a strong balance sheet and is well positioned to continue consolidating a fragmented industry.

LMS – LMS' gross profit declined 23.3% for its year ended September 30, 2008 compared to 2007 which impacted the distributions received from LMS starting in January 2009. The decline was almost all attributable to the first material bad debts in the operating history of the company that were the direct result of the economic decline beginning in the summer of 2008. A secondary impact that affected the following fiscal year was a number of canceled projects, combined with rapidly falling steel prices, which left the company with high price steel inventory (conservatively purchased by the company for specific projects) that it has had to work through in a depressed selling market for most of the company's fiscal year ending September 30, 2009. LMS is through the high priced inventory and have recently purchased more steel at less than half of the cost of the previously purchased inventory. As a result, in its last few months of unaudited internally prepared financial statements, the company has shown a return to more normal gross margins but not as high as typically experienced by LMS in prior fiscal periods. Volumes are well below peak levels experienced in mid-2008 but bidding activity for new projects has increased significantly of late. As a result of the economic issues faced by LMS, the company has experienced a gross profit decline of approximately 75% for its year ended September 30, 2009 based on unaudited information provided by LMS' management which will impact the distributions received from LMS starting in January 2010. These results are marginally better than Alaris management expected when the Corporation announced a dividend reduction in March 2009. LMS expects things to improve as volumes continue to recover and margins continue to improve as a result of the inventory issue being resolved. LMS has come through these difficult economic times with a strong balance sheet and expects to benefit from the economic recovery.

End of the Roll – For the first time in the 18 year history of its business, End of the Roll experienced a same store sales decrease. The decrease was 7.4% for the year ended April 30, 2009 and contributed to a $100,000 decline in the annual royalty paid to Alaris for the following twelve month period. The decline was most notably due to a handful of stores in more resource industry focused areas experiencing more significant declines than other stores. Four of the 48 stores included in the royalty calculation were down more than 20% year over year. Of note approximately half of the stores had a same store sales decrease of less than 5% (and 11 of those experienced year over year increases). The decrease experienced by End of the Roll was not significant due to the niche market that End of the Roll operates in. End of the Roll does not sell to homebuilders, but instead it specializes in the discount home renovation market. It is expected that the home renovation tax credit announced in early 2009 by the Canadian Federal government will help End of the Roll's business in its year ending April 30, 2010 but is not material enough to cause a significant spike in the current year

MEDIchair – MEDIchair experienced a same store sales increase of 4.1% effective October 1, 2008 and based on unaudited, internally prepared statements, MEDIchair management expects that the results will be approximately flat year over year in 2009. Retail sales numbers are generally down across North America but MEDIchair's business is buoyed by strong demographics and operating in a "need" business - providing home mobility products for the elderly and disabled - the main driver for the same store sales performance.

LIQUIDITY AND CAPITAL RESOURCES

The Corporation has an almost fully-drawn $25 million senior credit facility ($22.55 million at December 31, 2009) provided by two Canadian chartered banks and a $6.5 million subordinated debt demand facility provided by a company owned by the Corporation's largest shareholder (see "Transactions with Related Parties"). The senior facility was renewed on December 20, 2009 at the same interest rate of Canadian prime interest rate plus 3%. The senior credit facility is a 364-day revolving loan that is due December 19, 2010. The facility carries a three-year term out option in the event the loan is not renewed. As well, as part of an amendment to the original facility, the banks required principal repayments of $950,000 on December 31, 2009 and then in each of the first three quarters in 2010 (total of $2.85 million). Therefore at December 31, 2009, only the required principal repayments are shown as a current liability as no further payments would be required before January 2011 under the terms of the agreement. At December 31, 2009, the Corporation met all of its covenants as required by the senior credit facility. Those covenants include a maximum debt to EBITDA of 1.5:1 (1.28:1 at December 31, 2009); minimum tangible net worth of $104.9 million ($115.7 million at December 31, 2009); and a minimum fixed charge coverage ratio of 1:1 (1.39:1 at December 31, 2009).

The Corporation has a $6.5 million subordinated demand loan with the Corporation's largest shareholder. Interest is paid at 13% per annum. The shareholder has informed the Corporation in writing that he does not intend to demand payment in the next twelve months.

The Corporation had 11.466 million voting and non-voting common shares and 1,150,000 warrants outstanding at December 31, 2009. The Corporation had negative working capital of approximately $4.2 million at December 31, 2009, but based on circumstances explained under "Working Capital", the Corporation has $0.6 million of negative Available Working Capital which can be supported by an expected dividend payout ratio of less than 90% of cash available for distribution to shareholders in 2010. Subsequent to December 31, 2009, shareholders exercised 167,250 warrants at $7.50 generating over $1.25 million in proceeds that will be used for debt reduction or working capital. Under the current terms of the various commitments, the Corporation has the ability to meet all current obligations as they become due.

WORKING CAPITAL

The Company's working capital (defined as current assets less current liabilities) at December 31, 2009 is set forth in the tables below. The Company defines "Available Working Capital" as current assets less current liabilities, with an exclusion of certain current liabilities and certain current assets (the "Excluded Items") from such calculation. The Excluded Items include: (i) a subordinated debt facility held by the Corporation's largest shareholder, which has been excluded from current liabilities on the basis of a letter provided by the Corporation's largest Shareholder indicating that there is no intention to demand payment of such debt within twelve (12) months; (ii) the Company's senior credit facility, which was excluded from current liabilities on the basis that such facility only becomes current if the lending syndicate elects not to renew the facility (with the exception of any scheduled repayments in the year); and (iii) significant non-cash estimated future income tax asset and liability accounts. The tables below reconcile the differences in the calculation of working capital to Available Working Capital.

December 31, 2009	Working Capital	Available Working Capital
Cash	3,826,000	3,826,000
Accounts receivable	2,470	2,470
Prepaid expenses	103,472	103,472
Future income taxes	2,996,000	Excluded
Total Current Assets	**$6,927,942**	**$3,931,942**
Accounts payable & accrued liabilities	939,085	939,085
Dividends payable	802,604	802,604
Future income taxes	47,808	Excluded
Bank indebtedness	2,850,000	2,850,000
Subordinated debt	6,500,000	Excluded
Total Current Liabilities	**$11,139,497**	**$4,591,689**
Net Amount at December 31, 2009	**($4,211,555)**	**($659,747)**
Net Amount at September 30, 2009	**($8,967,257)**	**$1,184,415**
Net Amount at December 31, 2008	**($2,490,171)**	**$252,487**

Working capital decreased by $1.7 million compared to December 31, 2008 due to three required quarterly payments required in the first nine months of 2010 compared to none in all of 2009 as the facility has just been renewed and the current portion was nil at December 31, 2008. Available Working Capital decreased by $0.9 million as there were no required principal repayments at December 31, 2008 and at December 31, 2009 there are $2.85 million in required repayments in the next twelve months. That number was partially offset by excess cash generated by the Corporation that had a dividend payout ratio of less than 70% in the year.

Working capital increased by $4.7 million compared to September 30, 2009 as a net result of showing nine months of potential repayments ($5.9 million as a result of the potential exposure to the Corporation if the facility was not renewed in December 2009) under the senior credit facility at September 30, 2009 as a current liability compared to only three quarterly repayments for $2.85 million at December 31, 2009. Available Working Capital decreased by $1.8 million as there were no required principal repayments at December 31, 2008 and at December 31, 2009 there are $2.85 million in required repayments in the next twelve months. That number was partially offset by excess cash generated by the Corporation and the previously mentioned low dividend payout ratio.

Though the table above shows a significant working capital deficiency at December 31, 2009, management of the Corporation believes that the Corporation's Available Working Capital amount is more representative of the Corporation's ability to meet obligations as they become due, due to the nature of the items excluded in calculating such amount. The current negative Available Working Capital of $660,000 can be supported by an expected dividend payout ratio of less than 90% of cash available for distribution to shareholders in 2010 as well as proceeds received from the exercise of warrants in the first quarter of 2010.

FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity. Upon initial recognition all financial instruments,

including derivatives, are recognized on the balance sheet at fair value. Subsequent measurement is then based on the financial instruments being classified into one of five categories: held for trading, held to maturity, loans and receivables, available for sale and other liabilities. The Corporation has designated its financial instruments into the following categories applying the indicated measurement methods:

Financial Instrument	Category	Measurement Method
Cash and cash equivalents	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Preferred LP units	Available for sale	Cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Bank indebtedness	Other liabilities	Amortized cost
Subordinated debt	Other liabilities	Amortized cost

The Corporation will assess at each reporting period whether there is a financial asset, other than those classified as held for trading, that is impaired. An impairment loss, other than temporary, is included in net earnings.

The Corporation has no embedded derivatives. The Corporation records all transaction costs incurred, in relation to the acquisition of investments classified as "available for sale", as an additional cost of the investment. The Corporation applies trade-date accounting for the recognition of a purchase or sale of cash equivalents and derivative contracts.

The Corporation has the following financial instruments that mature as follows:

	Total	0-6 Months	6 mo – 1 yr	1 – 2 years	3 – 4 years
Accounts payable and accrued liabilities	939,085	939,085	0	0	0
Dividends payable	802,604	802,604	0	0	0
Bank indebtedness	22,550,000	1,900,000	950,000	13,133,333	6,566,667
Subordinated debt	6,500,000	6,500,000	0	0	0
Total	**30,791,689**	**10,141,689**	**950,000**	**13,133,333**	**6,566,667**

The Corporation has sufficient cash on hand to settle all current accounts payable, accrued liabilities, dividends payable and all scheduled repayments on the senior debt. In the event the senior debt is not renewed and principal payments become due, the debt would be refinanced, or alternatively, management expects that there would be sufficient cash flow from operations to meet all required repayments. In the event payment of the subordinated debt is demanded, the Corporation would look to refinance the loan or raise equity to replace it.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

A. Disclosure Controls and Procedures

An evaluation was performed under the supervision and with the participation of the Corporation's management (including the CEO and CFO) of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures, as defined in National Instrument 52-109. Based on that evaluation, the Corporation's management (including the CEO and CFO) concluded that the

Corporation's disclosure controls and procedures were designed to provide a reasonable level of assurance over disclosures of material information and are effective as of December 31, 2009.

B. Management Report on Internal Controls over Financial Reporting

The Corporation's management, (including the CEO and CFO) have assessed and evaluated the design and effectiveness of the Corporation's internal controls over financial reporting as defined in National Instrument 52-109 as of December 31, 2009. The Corporation's assessment included documentation, evaluation and testing of its internal controls over financial reporting. Based on that evaluation, the Corporation's management concluded that the Corporation's internal controls over financial reporting are effective and provide reasonable assurance regarding the reliability of the Corporation's financial reporting and its preparation of financial statements for external purposes in accordance with Canadian GAAP and are effective as of December 31, 2009.

Internal controls over financial reporting, no matter how well designed, have inherent limitations and can only provide reasonable assurance with respect to financial statement presentation and may not prevent or detect all misstatements.

SUMMARY OF CONTRACTUAL OBLIGATIONS

Other than the senior and subordinated credit facilities described under "Liquidity and Capital Resources" (combined below under Long term debt), the only material contractual obligation of the Corporation is its lease for office space. The Corporation agreed to a new seven-year lease at a new location that commenced in the fourth quarter of 2009. Annual leasing costs will be approximately $130,000.

Contractual Obligations	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Long term debt	29,050,000	9,350,000	19,700,000	0	0
Office lease	913,211	128,320	391,911	269,472	123,508
Other long-term obligations	0	0	0	0	0
Total Contractual Obligations	29,963,211	9,478,320	20,091,911	269,472	123,508

Transactions with Related Parties

In December 2007, Alaris Partnership borrowed $90 million from a company owned by Mr. Clay Riddell, its then largest unitholder. The annual interest rate is fixed at 13%. On July 31, 2008, the Corporation used proceeds from the transaction described in the "Overview" section of this MD&A to reduce the outstanding debt to this company to $6.5 million. For the year ended December 31, 2009, the Corporation paid interest of $845,000 to this company (2008 - $7,162,646). All transactions with related parties are valued at exchange amount.

On October 22, 2009, the Corporation raised $13.8 million by issuing 2,300,000 units comprised of 2,300,000 voting common shares at $6 per share and 1,150,000 warrants with an exercise price of $7.50. The Corporation's largest shareholder subscribed for 760,000 of those units.

Related party transactions are measured at fair value.

Critical Accounting Estimates and Policies

Management is required to make estimates when preparing the financial statements. Significant estimates include the amount of liabilities for services provided but not yet invoiced, stock-based compensation expenses, future income tax amounts, valuation of intangible assets and preferred limited partnership units and valuation of outstanding warrants.

The Corporation capitalizes legal and accounting costs relating to a specific transaction once a letter of intent has been signed. The Corporation's transactions structured as limited partnerships are not amortized and will be assessed for objective evidence of impairment at each balance sheet date. The Corporation's intangible assets are being amortized over the 80-year term of the agreements on a straight-line basis.

New Accounting Policies

Effective January 1, 2009, the Corporation adopted CICA section 3064 Goodwill and Intangible Assets. The implementation of this standard did not have a material effect on the Company's financial statements.

The matters raised in EIC 173 requiring the Corporation to consider its credit risk and counterparty credit risk in establishing fair value of financial assets and liabilities are not expected to have a material impact on the Corporation's financial statements.

Recent Accounting Pronouncements not yet Adopted

The CICA's Accounting Standards Board confirmed the changeover from Canadian GAAP to IFRS (International Financial Reporting Standards) will be required for publicly accountable enterprises beginning on January 1, 2011. The Corporation has developed an implementation plan that includes a preliminary GAAP assessment, detailed quantification of the differences between Canadian GAAP and IFRS, the preparation of an opening balance sheet under IFRS for January 1, 2010 and a transition plan for elections under IFRS 1. The Corporation has begun to evaluate the impact of adoption and while the process is not complete, we have identified the following differences: the Preferred LP units will be required to be re-valued to fair value at each balance sheet date, and there will be changes to the fair value calculations for non-cash stock-based compensation expenses including expanded disclosure.

The new standards for business combinations, consolidated financial statements and non-controlling interests are not expected to have a material impact on the Corporation's financial statements.

SUMMARY OF ANNUAL RESULTS

Amounts are in thousands except for income (loss) per unit/share:

	2009	2008	2007
Revenue	18,071	19,031	11,386
Income (loss) from operations	17,497	(3,052)	1,844
Basic and Diluted Income (loss) per Share/Unit	Basic - $1.83	Basic - $(0.65)	$1.23
Total Assets	164,476	149,019	113,303
Total Financial Liabilities	$29,050	31,500	115,000
Cash Dividends/Distributions declared per Share/Unit	Basic - $0.95	Basic - $1.63	$1.04

The loss for the year ended December 31, 2008 was due to $10 million in non-cash accounting entries booked as a result of the transaction described in the "Overview" section. Net income per share was $0.40 before those accounting adjustments. Net income in 2009 was higher than expected as a result of a $6.2 million recovery of future income tax expense in the quarter as a result of the extension of expiry dates for investment tax credits. Net income per share (basic) was $1.18 before that accounting adjustment.

Summary of Quarterly Results

Amounts are in thousands except for income (loss) per unit/share:

	Q4-09	Q3-09	Q2-09	Q1-09	Q4-08	Q3-08	Q2-08	Q1-08
Revenue	4,792	4,335	4,344	4,600	4,779	4,825	4,744	4,682
Income (loss) from operations	8,629	3,349	2,630	2,897	2,491	(7,355)	896	915
Basic and Diluted Income (loss) per Share/Unit	$0.79 $0.69	$0.37 $0.34	$0.29 $0.27	$0.32 $0.30	$0.27 $0.26	($1.12) ($1.12)	$0.60 $0.60	$0.61 $0.61

The net income for the three months ended December 31, 2009 was increased by a $6 million recovery of future income taxes as described at the beginning of this MD&A. There were also additional non-cash stock based compensation expenses in the quarter to offset a recovery of those same non-cash expenses recorded in the third quarter of 2009. Before those two adjustments, basic and fully-diluted income per share in the third quarter of 2009 was $0.31 and $0.29, respectively, and in the fourth quarter, $0.27 and $0.24, respectively.

The loss for the three months ended September 30, 2008 was due to $10 million in accounting entries booked as a result of the transaction described in the "Overview" section. Net income per share was $0.40 before those accounting adjustments.

Outstanding Shares

At December 31, 2009, the Corporation had 10,799,098 voting and 666,668 non-voting common shares issued and outstanding (11,465,766 common shares, collectively the "**Common Shares**" in aggregate).

To satisfy the dividend requirement under the RSU Plan, the Corporation issued 12,679 voting common shares from treasury in the year ending December 31, 2009. On October 22, 2009, the Corporation raised $13.8 million by issuing 2,300,000 units comprised of 2,300,000 voting common shares at $6 per share and 1,150,000 warrants with an exercise price of $7.50. These warrants are exercisable at any time up to twenty-four (24) months from the date of their issue, subject to a mandatory exercise if, any time after twelve (12) months from their issue, if the volume weighted average price of the voting common shares on the Toronto Stock Exchange is above $9.00 per common share for twenty (20) consecutive trading days. On October 29, 2009, the Corporation issued 31,250 shares that vested to directors under the RSU plan.

Subsequent to December 31, 2009, the Corporation issued 2,389 shares to satisfy the dividend requirement under the RSU Plan and 167,250 of the warrants issued on October 22, 2009 were exercised at $7.50 generating over $1.25 million in proceeds that will be used for debt reduction or working capital. At March 10, 2010, the Corporation had 11,635,402 Common Shares outstanding.

At December 31, 2009, 384,400 restricted share units and 319,150 stock options were outstanding under the Corporation's long-term incentive compensation plans.

Outlook

Alaris' agreements with the Partners provide for payments estimated to provide the Corporation approximately $15.2 million of revenues for all of 2010. General and administrative expenses are currently estimated at $2.4 million annually and include all public company costs. The senior debt facility is almost fully drawn at $22.55 million and the annual interest rate on that debt is 5.25% at December 31, 2009. $6.5 million of demand, subordinated debt is outstanding with an annual interest rate of 13%. Cash requirements after net income are expected to be minimal, as current capital expenditures consist of office furniture and computer equipment.

Alaris' revenue outlook for 2010 includes a drop in revenues from current operations of approximately 16% compared to 2009 due mostly to the decline in 2010 distributions from LMS partially offset by increases in distributions from LifeMark and royalties from MEDIchair. While results for LMS in 2009 were a challenge, the longer-term outlook for LMS is more positive. The British Columbia real estate market is showing strength and LMS is expected to benefit from the British Columbia provincial government's 2009 budget that included an announcement of $14 billion of new infrastructure projects to be completed over the next three years. With a significant share of the rebar installation market in lower mainland B.C., Lower Mainland Steel is ideally situated to recover in the coming years. As a result, it is the view of the Corporation's management that there has been no objective evidence of impairment on the value of the transaction with Lower Mainland Steel.

The other three Partners continued to perform well, even through a difficult 2009. The Corporation expects another same store sales increase from LifeMark's 2009 results at a rate slightly less than the 5.63% last year. End of the Roll's results are showing a steady recovery in the first seven months of its fiscal year ending April 30, 2010 and MEDIchair's results are expected to be flat for 2009 leaving the 2010 royalty at the same level it was in 2009.

The Corporation plans to continue to seek out and enter into transactions accretive to the Corporation's earnings per share in the current Private Company Partners and other private businesses.

Certain information contained herein may be considered to be future oriented financial information or financial outlook under applicable securities laws, the purpose of providing such information in this MD&A is to demonstrate the visibility the Corporation has with respect to its revenue streams, subject to the risks identified for the business, and readers are cautioned that the information may not be appropriate for other purposes. See also "Forward Looking Information" below.

Risks and Uncertainty

An investment in our securities involves a number of risks. The risks and uncertainties described below are not the only ones we face. Additional risks that we currently do not know about or that we deem to be immaterial may also impair our business or results of our operations. When reviewing forward-looking statements and other information contained in this AIF, investors and others should carefully consider these factors, as well as other uncertainties, potential events and industry and company-specific factors that may adversely affect our future results. We assume no obligation to update or revise our forward-looking statements or other information contained in this AIF to reflect new events or circumstances.

We have organized our risks into the following categories:

- Strategic Risk Factors Relating to our Business
- Operational and Financial Risk Factors Relating to Our Business
- Risk Factors Relating to our Private Company Partners

Strategic Risk Factors Relating To Our Business

We have Limited Diversification in Our Private Company Partners

Alaris does not have stringent fixed guidelines for diversification with respect to our Private Company Partners. At any given point in time, we may have a significant portion of our assets dedicated to a single business or industry. In the event that any such business or industry is unsuccessful or experiences a downturn, we could incur significant losses, which could, in turn, have a material adverse effect on our business, results from operations and financial condition.

We depend upon our Private Company Partners, and in particular, on LifeMark Health as our Largest Partner

We are entirely dependent on the operations and assets of our Private Company Partners through our agreements with them. Our ability to pay dividends, to satisfy our debt service obligations and to pay our operating expenses is dependent on the Distributions received from our Private Company Partners, our sole source of cash flow. Distributions to Alaris from our Private Company Partners are generally based on a percentage of the Private Company Partner's revenues, same-store sales, gross margin or other similar top-line measure. Accordingly, subject to certain conditions, to the extent that the financial performance of a Private Company Partner declines with respect to the relevant performance measure, cash payments to Alaris will decline. The failure of any Private Company Partner to fulfill its distribution obligations to Alaris could materially adversely affect our financial condition and cash flows.

Our agreements with our Private Company Partners provide us with certain remedies in the event of non-payment of Distributions by the applicable Private Company Partner. In addition, some of our arrangements (in particular, End of the Roll and MEDIchair) are secured by the assets of the Private Company Partner. However, our rights to payment and our security interests are generally subordinated to the payment rights and security interests of a Private Company Partner's commercial and trade lenders.

We do not have significant influence over any of our Private Company Partners nor do we have the ability to exercise control over such Private Company Partners. As a result, we do not have the ability to exercise influence over the operation of our Private Company Partners. The Distributions received by us from our Private Company Partners therefore depend upon a number of factors that may be outside of our control.

There is generally no publicly available information, including audited or other financial information about our Private Company Partners and the boards of directors and management of these companies are not subject to the same governance and disclosure requirements applicable to public companies. Therefore, although our Private Company Partners are required to provide Alaris with regular financial and operating information on a monthly and annual basis pursuant to our agreements with them, investors must rely on Alaris and its management and consultants to investigate and monitor the Private Company Partners. Numerous factors may affect the quantum of a Private Company Partner's distribution obligations to Alaris, or the ability of a Private Company Partner to service such distribution obligations, including the failure to meet its business plan, a downturn in its industry or negative economic conditions. Deterioration in a Private Company Partner's financial condition and prospects may be accompanied by a material reduction in the distributions or payments received by Alaris. See "*Risk Factors Relating to our Private Company Partners*".

We May Not Complete or Realize our Anticipated Benefits of our Private Company Partner Arrangements

A key element of our growth plan is adding new Private Company Partners and making additional investments in the initial Private Company Partners in the future. Our ability to identify and complete new investment opportunities is not guaranteed. Achieving the benefits of future investments will depend in part on successfully identifying and completing such opportunities in a timely and efficient manner and in structuring such arrangements to ensure a stable and growing stream of distributions. The identification and completion of future opportunities will require the dedication of management effort, time and resources, which may divert management's focus, and resources from other strategic opportunities.

We May be Adversely Affected by General Economic Conditions

Our business and the business of each of the Private Company Partners are subject to changes in national or North American economic conditions, including but not limited to, recessionary or inflationary trends, equity market levels, consumer credit availability, interest rates, consumers' disposable income and spending levels, job security and unemployment, and overall consumer confidence. Recent market events and conditions, including disruptions in the international credit markets and other financial systems have resulted in a deterioration of global economic conditions. These conditions worsened in 2008 and continued in 2009, causing a loss of confidence in the broader U.S. and global credit and financial markets and resulting in the collapse of, and government intervention in, major banks, financial institutions and insurers and creating a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions.

Notwithstanding various actions by governments and renewed optimism reflected in the stock markets in the latter part of 2009 and 2010, concerns remain about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions. These factors have negatively impacted company valuations and will impact the performance of the global economy going forward and could have a material adverse effect on our and our Private Company Partners' business, financial condition, results of operations and cash flows.

We are Subject to Risks Affecting any New Private Company Partners

If Alaris is successful in partnering with one or more new Private Company Partners, the businesses of these Private Company Partners may be subject to one or more of the risks referred to under "*Risk Factors Relating to our Private Company Partners*" or similar risks and may be subject to other risks particular to such business or businesses.

We Face Competition with other Investment Entities

Alaris competes with a large number of private equity funds and mezzanine funds, investment banks, equity and non-equity based investment funds, and other sources of financing, including the public capital markets. Some of our competitors are substantially larger and have considerably greater financial resources than us. Competitors may have a lower cost of funds and many have access to funding sources that are not available to Alaris. In addition, certain of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships and build their market shares. There is no assurance that the competitive pressures that we face will not have a material adverse effect on our business, financial condition and results of operations. Also, as a result of this competition, we may not be able to take advantage of attractive investment opportunities from time to time and there can be no assurance that Alaris will be able to identify and make investments that satisfy our business objectives or that we will be able to meet our business goals.

Our Ability to Manage Future Growth May Have an Adverse Effect on Our Business

Our ability to sustain continued growth depends on our ability to identify, evaluate and invest in suitable private businesses that meet its criteria. Accomplishing such a result on a cost-effective basis is largely a function of Alaris' sourcing capabilities, our management of the investment process, our ability to provide capital on terms that are attractive to private businesses and our access to financing on acceptable terms. As Alaris grows, we will also be required to hire, train, supervise and manage new employees. Failure to manage effectively any future growth could have a material adverse effect on our business, financial condition and results of operations.

Operational And Financial Risk Factors Relating To Our Business

We are Dependent upon the Financial Health of Private Company Partners

Alaris is entirely dependent on the operations and assets of our Private Company Partners. Our ability to pay dividends is dependent on the distributions received from Private Company Partners. This is affected by many factors including the profitability and capital expenditures of our Private Company Partners. Distributions to Alaris from our Private Company Partners are generally based on a percentage of their revenues, same-store sales, gross margin or other similar top-line measure. Accordingly, subject to certain conditions, to the extent that the financial performance of a Private Company Partner declines with

respect to the relevant performance measure, cash payments to Alaris will decline. The failure of any Private Company Partner to fulfill its distribution obligations to Alaris could adversely affect our financial condition and cash flows.

Our agreements with our Private Company Partners provide Alaris with certain remedies in the event of non-payment of royalty, distribution or interest by the applicable Private Company Partner. In addition, some of these arrangements are secured by the assets of the Private Company Partners. However, our rights to payment and our security interests are usually subordinated to the payment rights and security interests of a Private Company Partner's commercial and trade lenders. For a discussion of the particular risk factors applicable to the Private Company Partners, see "*Risks Relating to the Private Company Partners*" below.

We are Subject to Tax Related Risks

Alaris has various unclaimed non-capital losses, Scientific Research and Experimental Development Expenditure pools and other deductions and credits available to it for Canadian federal income tax purposes. These unclaimed deductions and credits are subject to assessment and possible downward adjustment by Canadian tax authorities. Although we are of the view that all expenses and tax credits claimed by us are reasonable and deductible and have been correctly determined, there can be no assurance that the Canadian taxation authorities will agree. If the Canadian taxation authorities successfully challenge the deductibility of our expenses or the correctness of income tax credits claimed, our operating results could be adversely affected.

Our Ability to pay Dividends is Affected by the Degree to Which we are Leveraged

Our ability to pay dividends is subject to applicable laws and contractual restrictions in the instruments governing any of our indebtedness. The degree to which Alaris is leveraged could have important consequences for Shareholders including: (i) our ability to obtain additional financing for working capital or investments in the future may be limited; (ii) all or part of our cash flow from operations may be dedicated to the payment of the principal of and interest on our indebtedness, thereby reducing funds available for future operations or for payment of dividends; (iii) certain of our borrowings are at variable rates of interest, which exposes us to the risk of increased interest rates; and (iv) we may be more vulnerable to economic downturns and be limited in our ability to withstand competitive pressures. These factors may adversely impact our cash flow, and, as a result, the amount of cash available for payment of dividends.

Interest expense has been estimated for the purpose of estimating our distributable cash based on current market conditions that are subject to fluctuations. Such fluctuations could result in an unanticipated material increase in interest rates that could in turn have a material adverse effect on cash available for dividend to Shareholders.

There are no Guarantees as to the Availability of Future Financing for Operations, Dividends and Growth

We expect that our principal sources of funds will be cash generated from the Private Company Partners. We believe that funds from these sources will provide Alaris with sufficient liquidity and capital resources to meet our ongoing business operations at existing levels. Despite our expectations, however, Alaris may require additional equity or debt financing to meet our financing and operational requirements. There can be no assurance that this financing will be available when required or available

on commercially favourable terms or on terms that are otherwise satisfactory to Alaris, in which event our financial condition may be materially adversely affected.

The payout by Alaris of substantially all of our operating cash may make additional investment capital and operating expenditures dependent on increased cash flow or additional financings in the future. Alaris will require equity or debt financing in order to acquire interests in new Private Company Partners or make additional investments in the initial Private Company Partners. There can be no assurance that such financing will be available when required or on commercially favourable terms which could limit our growth. The ability of Alaris to arrange such financing in the future will depend in part upon the prevailing capital market conditions as well as our business performance.

There are Risks Related to Alaris' and our Private Company Partners' Outstanding Debt

Certain features of our outstanding debt, including the renewal of such debt on substantially similar terms, and the nature of any outstanding debt of the Private Company Partners could adversely affect our ability to raise additional capital, to fund our operations, to pay dividends, and could limit our ability to react to changes in the economy and our industry, expose us to interest rate risks and to the extent our variable rate debt, and could prevent us from meeting certain of our business objectives.

We and our Private Company Partners Rely Heavily on Key Personnel

The success of Alaris and of each of our Private Company Partners depends on the abilities, experience, efforts and industry knowledge of their respective senior management and other key employees, including their ability to retain and attract skilled management and employees. The long-term loss of the services of any key personnel for any reason could have a material adverse effect on the business, financial condition, results of operations or future prospects of Alaris or a Private Company Partner. In addition, the growth plans of Alaris and the Private Company Partners described in this AIF may require additional employees, increase the demand on management and produce risks in both productivity and retention levels. Alaris and the Private Company Partners may not be able to attract and retain additional qualified management and employees as needed in the future. There can be no assurance that Alaris or the Private Company Partners will be able to effectively manage their growth, and any failure to do so could have a material adverse effect on our business, financial condition, results of operations and future prospects.

As a Public Company, We Are Subject to Significant Regulation

Alaris and the Private Company Partners are subject to a variety of federal, provincial and local laws, regulations, and guidelines and may become subject to additional laws, regulations and guidelines in the future, particularly as a result of acquisitions. The financial and managerial resources necessary to ensure such compliance could escalate significantly in the future which could have a material adverse effect on Alaris' and the Private Company Partners' business, financial condition, results of operations and cash flows. Such laws and regulations are subject to change. Accordingly, it is impossible for Alaris or the Private Company Partners to predict the cost or impact of such laws and regulations on their respective future operations.

Our Private Company Partners Have Termination Rights Which May be Exercised

Each of our Private Company Partners has the right to terminate their agreement with Alaris through a repurchase or redemption right that arises after a fixed period of time following the closing of our arrangement with the applicable Private Company Partner. Although Management believes that the

repurchase or redemption purchase price would adequately compensate Alaris for the foregone payments, we would be required to reinvest the cash received including possibly investing in our own shares through the repurchase and cancellation of our Common Shares or Non-Voting Shares, in order to maintain our dividend levels. There is no assurance that we would be able to successfully identify and complete any such alternative investments or complete any such share repurchase.

We Have Limited Operating History as a Public Company

Alaris became a reporting issuer on July 31, 2008. Although Management's experience is improving, Management's collective experience in operating as a reporting issuer is still limited. To operate effectively, we will be required to continue to implement changes in certain aspects of our business, improve and expand its management information systems and develop, manage and train management level and other employees, to comply with on-going reporting issuer requirements. Failure to take such actions, or delay in the implementation thereof, could adversely affect our business, financial condition, liquidity and results of operations.

Our Share Price is Unpredictable and can be Volatile

A publicly traded corporation will not necessarily trade at values determined by reference to the underlying value of its business. The prices at which the Common Shares will trade cannot be predicted. The market price of the Common Shares could be subject to significant fluctuations in response to variations in quarterly and annual operating results, the results of any public announcements we make, and other factors. In addition, during late 2008 and continuing through 2009, the securities markets experienced significant market-wide and sectoral price and volume fluctuations. Such fluctuations may adversely affect the market price of the Common Shares. See also "*General Risk Factors Relating to Our Business – General Economic Conditions*" above.

There is no Market for Our Warrants

The Warrants are not listed for trading on any stock exchange and there is currently no market through which the Warrants may be sold. As a result, Warrantholders may not be able to resell the Warrants that they purchased under the Offering. This may affect the pricing of the Warrants in the secondary market, the transparency and availability of trading prices, the liquidity of the Warrants and the extent of issuer regulations.

There are no Guarantees as to the Timing and Amount of Our Dividends

The amount of dividends paid by us will depend upon numerous factors, including profitability, debt covenants and obligations, the availability and cost of acquisitions, fluctuations in working capital, the timing and amount of capital expenditures, applicable law and other factors beyond our control. Dividends are not guaranteed and will fluctuate with our performance and the performance of our Private Company Partners. There can be no assurance as to the levels of dividends to be paid by us, if any. Alaris will also incur expenses as a public issuer. Should any estimate of such expenses prove inadequate or if unanticipated public issuer expenses are incurred, it would reduce cash available for payment of dividends. The market value of the Common Shares may deteriorate we are unable to pay dividends in accordance with its dividend policy in the future, and such deterioration may be material.

Our Ability to Recover from Private Company Partners for Defaults our Agreements with Them May be Limited

Each Private Company Partner provides certain representations and warranties and covenants to us regarding the Private Company Partner and its business and certain other matters. Following a transaction with Alaris, the Private Company Partner may distribute all or a substantial portion of the proceeds that it receives from us to its securityholders. In the event that we suffer any loss as a result of a breach of the representations and warranties or non-compliance with any other term of an agreement with a Private Company Partner, we may not be able to recover the amount of our entire loss from the Private Company Partner. The Private Company Partner may not have sufficient property to satisfy our loss.

We are Subject to a Risk of Legal Proceedings

In the normal course of business, we may be subject to lawsuits, claims and litigation for amounts not covered by our liability insurance. Some of these proceedings could result in significant costs. Although the outcome of such proceedings is not predictable with assurance, Alaris has no reason to believe that the disposition of such matters could have a significant impact on our financial position, operating results or ability to carry on our business activities. As of the date of this AIF, no material claims or litigation have been brought against Alaris.

Our Capacity to Protect Our Intellectual Property May be Limited

We rely on various intellectual property protections, including trademark laws, to preserve our intellectual property rights. To protect our intellectual property, we may become involved in litigation, which could result in substantial expenses, divert the attention of Management, cause significant delays, materially disrupt the conduct of our business or adversely affect our revenues, financial position and results of operations.

Our Directors May Have Conflicts of Interest

Certain directors of the Corporation are associated with other companies or entities, which may give rise to conflicts of interest. In accordance with the CBCA, directors who have a material interest in any person who are parties to a material contract or proposed material contract with Alaris are required, subject to certain exceptions, to disclose that interest and abstain from voting on any resolution to approve that contract. In addition, the directors are required to act honestly and in good faith with a view to the best interests of Alaris. See "*Conflicts of Interest*" and "*Interests of Management and Others in Material Transactions*".

We May Issue Additional Common Shares Diluting Existing Shareholders' Interests

We may issue an unlimited number of Common Shares, Non-Voting Shares and Warrants for such consideration and on such terms and conditions as shall be established by such without the approval of Shareholders. Any further issuance of Common Shares will dilute the interests of existing Shareholders. The Shareholders will have no pre-emptive rights in connection with such future issuances.

Risks Relating To Our Private Company Partners

Risks relating to LifeMark health and LMS

Our material Private Company Partners, being LifeMark Health and LMS, face a number of businesses, operational and other risks which if realized, could have a material impact on our operating results and conditions. These risks are outlined in more detail below.

Risks Relating Specifically to LifeMark Health

Government Regulation — Healthcare service providers in Canada are subject to various governmental regulation and licensing requirements. Unlike certain other healthcare industry segments, specifically pharmaceuticals, laboratory services and hospital management companies, LifeMark Health operates in markets that are not regulated. LifeMark Health does not require a special license or permit from any governmental body to operate, aside from the license required for the medical imaging business and those normally required for all businesses. All of LifeMark Health's medical personnel, both physicians and registered nurses, are required to maintain the requisite professional licenses from their respective governing professional bodies. Notwithstanding that LifeMark Health operates in markets that are not currently regulated, any change in governmental regulation and licensing requirements or interpretation and application of same relating to healthcare services could have an adverse impact on the scope of LifeMark Health's activities.

Customer Concentration — LifeMark Health's revenue is dependent in part on contracts from certain governmental agencies. The loss of any such contract would have a significant adverse effect on LifeMark Health.

Confidentiality of Personal & Health Information — The collection, use and disclosure of patient personal and health information are subject to substantial regulation by the federal and, in most cases, provincial governments. These laws provide that an individual's consent is required prior to the collection, use and disclosure of information collected from them (with limited prescribed exceptions), that the collected information be protected with reasonable security measures and that the individual have access to the information so collected in order to ensure its accuracy. In addition, future legislation may affect the dissemination of health information that is not individually identifiable. Physicians and other persons providing patient information to LifeMark Health are also required to comply with these laws and regulations. If a client's privacy is violated or if LifeMark Health is found to have violated any law or regulation, it could be liable for damages or for criminal fines or penalties.

Risks Relating Specifically to LMS

Steel Pricing Risks — The world steel markets in which LMS operates can be extremely volatile and cyclical. Up to approximately 60% of LMS's variable costs can be attributed to the price of steel. A failure of LMS to anticipate and appropriately respond in a timely fashion to steel pricing trends in the purchasing and selling of steel products may have a material

adverse effect on LMS's results.

Reinforcing steel products are typically sold by means of fixed price contracts, where the reinforcing steel is provided to the customer over a period of time which may range from several weeks to several years. At any point in time, therefore, LMS is contractually obligated to supply significant quantities of steel at a predetermined price. LMS does not hold inventory in quantities to match these obligations. The proportion of inventory to outstanding contractual obligations varies according to management's anticipation of steel pricing trends, but in any event, a material portion of the contractual obligations will always be exposed to future steel purchase pricing risk. If contractual obligations have to be fulfilled by steel purchased at higher replacement costs, then LMS will incur lower realization on those contracts which will have an adverse effect on LMS's results.

LMS's other steel products are sold and shipped within a very short timeframe. These sales are often supported with large inventories of raw materials. During a period of falling prices for raw materials such as what occurred in late 2008 (see "*General Economic Conditions Affecting LMS"* below), LMS would normally expect price realization on shipments of LMS's finished products to deteriorate, producing inferior returns during the period when older inventories are being sold.

General Economic Conditions Affecting LMS

Market events and conditions beginning in 2008, including disruptions in the international credit markets and other financial systems have resulted in a deterioration of global economic conditions and have had a negative effect on LMS' operations. Specifically, LMS experienced a dramatic shift in its business late in its fiscal 2008 year that included projects being cancelled and others being significantly delayed due to the unprecedented economic conditions that formed at that time. The end result was that LMS incurred material bad debt expenses, for the first time in its operating history, that decreased its reported gross profit for 2008 and a significant drop in its gross profit in 2009. The decline was based on both reduced volumes caused by the economic environment and credit crisis as well as by temporarily depressed margins that were caused by high priced inventory that resulted from cancelled projects. As a result of these factors, LMS' distribution to Alaris in 2010 will decrease. Although LMS' gross profits are improving as LMS has worked through its high-priced inventory and has since realized on some of its material bad debt expenses, these factors may continue to have a negative impact on LMS' business, financial condition, results of operation and cash flows and could have a material adverse effect on Alaris.

Supplier Base

LMS relies on key suppliers for the supply of raw materials. Disruption of any one supplier could have a material adverse effect on the ability of LMS to secure its supplies, as well as an increase in the cost of those supplies adversely affecting its financial results.

Labour Relations Risk

Approximately one-half of LMS's employees are unionized or governed by collective trade agreements (e.g., steelworkers or automotive). Labour disruptions could adversely affect LMS's business; however, LMS notes that the agreements are with multiple union

locals within diverse regions.

Trade Policy Restrictions	LMS is a significant importer of commodity steel products that are sourced both domestically and globally. Steel is often the subject of cross border trade disputes. Any material dispute that is not resolved in LMS's favour could have a material adverse effect on LMS's results.

Risks relating to all of our private company partners, generally

In addition to the risks relating specifically to our material Private Company Partners (being LifeMark Health and LMS), there are several other risks which impact all of our current and future Private Company Partners collectively, which if realized, could have a material impact on our operations and financial condition, as described below.

There is no Publicly-Available Information Concerning Our Private Company Partners

We provide alternative financing for private businesses. There is generally no publicly available information about these businesses and the boards of directors and management of these companies are not subject to the same governance and disclosure requirements applicable to public companies. Therefore, we rely on our management and consultants to investigate these businesses. There can be no assurance that our due diligence efforts will uncover all material information about the privately held businesses necessary to make fully informed decisions. Private Company Partners may have significant variations in operating results; may from time to time be parties to litigation; may be engaged in rapidly changing businesses; may require substantial additional capital to support their operations, to finance expansion or to maintain their competitive position; or may be adversely affected by changes in the business cycle. Numerous factors may affect the quantum of a Private Company Partner's distribution obligations to Alaris, or the ability of a Private Company Partner to service, such distribution obligations, including the failure to meet its business plan, a downturn in its industry or negative economic conditions. Deterioration in a Private Company Partner's financial condition and prospects may be accompanied by a material reduction in the distributions or payments received by us.

Our Private Company Partners Face Intense Competition

Our Private Company Partners may face intense competition, including competition from companies with greater financial and other resources, more extensive development, manufacturing, marketing, and other capabilities, and a larger number of qualified managerial and technical personnel. There can be no assurance that our Private Company Partners will be able to successfully compete against their respective competitors or that such competition will not have a material adverse effect on their businesses, financial condition, results of operations and cash flows and therefore the amount of or their ability to service their obligations to Alaris.

Our Private Company Partners May Suffer Damage to Their Brand Reputations

Damage to the reputation of our Private Company Partners' brands, or the reputation of the brands of suppliers of products that are offered by the Private Company Partners, could result from events out of the control of our Private Company Partners. This damage could negatively impact consumer opinion of our Private Company Partners or their related products and services, which could have an adverse effect on the Private Company Partners' performance.

Additional Franchises and Franchise Operations May be Limited

Two of our Private Company Partners, End of the Roll and MEDIchair, are franchisors. The growth of revenues of these companies is largely dependent upon their ability to maintain and grow their franchise systems and to execute their current growth strategy for both increasing the number of franchisees and increasing the number of locations. If these companies are unable to attract qualified franchisees, their operations could be adversely affected. The slowing of growth could lead potential and existing franchisees to begin to look elsewhere for better opportunities. The growth of the franchise network through adding new franchisees is somewhat dependant upon available personnel.

The franchisees that operate the businesses of the franchise systems are independent owners. The franchisees are bound by the applicable franchise agreements to maintain certain standards and to operate within the franchise system. However, the franchisees are not directly under the control of the franchisors and may not in all cases comply with the requirements of the franchisors. The failure of a number of franchisees to comply with the franchise agreements or to maintain the standards of the franchisors may have an adverse effect on the applicable franchisor's brand and operating results.

Our Private Company Partners Rely on Key Personnel

Often, the success of a private business depends on the management talents and efforts of one or two persons or a small group of persons. The death, disability or resignation of one or more of these persons could have a material adverse impact on a Private Company Partner's operations or ability to access additional capital qualified personnel, expand or compete.

How a Private Company Partner is Leveraged May Have Adverse Consequences to Alaris

Leverage may have important adverse consequences on our Private Company Partners and Alaris. Private Company Partners may be subject to restrictive financial and operating covenants. Leverage may impair our Private Company Partners' ability to finance their future operations and capital needs. As a result, their flexibility to respond to changing business and economic conditions and to business opportunities may be limited. A leveraged company's income and net assets will tend to increase or decrease at a greater rate than if borrowed money was not used.

A Lack of Funding for Our Private Company Partners Could Have Adverse Consequences to Them

Each of our Private Company Partners will continue to require additional working capital to conduct their existing marketing activities and to expand their businesses. Our Private Company Partners will need to raise additional funds through collaborations with corporate partners or through private or public financings to support their long-term growth efforts. If adequate funds are not available, our Private Company Partners may be required to curtail their business objectives in one or more areas. There can be no assurance that unforeseen developments or circumstances will not alter a Private Company Partner's requirements for capital, and no assurance can be given that additional financing will be available on acceptable terms, if at all.

Forward-Looking Statements

This MD&A contains forward looking statements. Statements other than statements of historical fact contained in this MD&A may be forward looking statements, including, without limitation, management's expectations, intentions and beliefs concerning the growth, results of operations, performance and business prospects and opportunities of the Corporation and the Partners, the general economy, the amount and timing of the declaration and payment of dividends by the Corporation, the future financial position or results of the Corporation, business strategy, proposed acquisitions, growth opportunities, budgets, litigation, projected costs and plans and objectives of or involving the Corporation or the Partners. In particular, this MD&A contains forward looking statements regarding the revenues anticipated to be received from the Partners and the Corporation's general and administrative expenses as well as the expected future performance of the Partners. Many of these statements can be identified by looking for words such as "believe", "expects", "will", "intends", "projects", "anticipates", "estimates", "continues" or similar words or the negative thereof. There can be no assurance that the plans, intentions or expectations upon which these forward looking statements are based will occur. Forward looking statements are subject to risks, uncertainties and assumptions and should not be read as guarantees or assurances of future performance. Accordingly, readers are cautioned not to place undue reliance on any forward looking information contained in this MD&A. Statements containing forward looking information reflect management's current beliefs and assumptions based on information in its possession on the date of this MD&A. Although management believes that the expectations represented in such forward looking statements are reasonable, there can be no assurance that such expectations will prove to be correct.

Statements containing forward-looking information by their nature involve numerous assumptions and significant known and unknown facts and uncertainties of both a general and a specific nature. Assumptions include the performance of the Canadian and U.S. economies in 2010 and how that will affect our business and our ability to identify and close new opportunities with new Private Company Partners. Some of the factors that could affect future results and could cause results to differ materially from those expressed in the forward looking statements contained herein include risks relating to: the dependence of the Corporation on the Partners; risks relating to the Partners and their businesses; reliance on key personnel; general economic conditions; failure to complete or realize the anticipated benefits of transactions; limited diversification of Alaris' transactions; management of future growth; availability of future financing; competition; government regulation; leverage and restrictive covenants under credit facilities; the ability of the Partners to terminate the various agreements with Alaris unpredictability and potential volatility of the trading price of the common shares; fluctuations in the amount of cash dividends; restrictions on the potential growth of the Corporation as a consequence of the payment by Alaris of substantially all of its operating cash flow; income tax related risks; future sales of common shares by significant shareholders; ability to recover from the Partners for defaults under the various agreements with Alaris; potential conflicts of interest; dilution; and liquidity of Common Shares. The information contained in this MD&A, including the information set forth under "Risk Factors", identifies additional factors that could affect the operating results and performance of the Corporation. Without limitation of the foregoing assumptions and risk factors, the forward looking statements in this MD&A regarding the revenues anticipated to be received from the Partners and the Corporation's general and administrative expenses are based on a number of assumptions including no adverse developments in the business and affairs of the Partners that would impair their ability to fulfill their payment obligations to the Corporation and no material changes to the business of the Corporation or current economic conditions that would result in an increase in general and administrative expenses.

The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. The forward looking statements included in this MD&A are made as of the date of this MD&A and Alaris does not undertake or assume any obligation to update or revise such statements to reflect new events or circumstances except as expressly required by applicable securities legislation.

Additional Information

Additional information relating to the Corporation, including the Corporation's Annual Information Form, is on available on SEDAR at www.sedar.com.

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